

# Remittance Flows to Post-Conflict States: Perspectives on Human Security and Development

OCTOBER 2013

PARDEE CENTER **TASK FORCE REPORT**



The Frederick S. Pardee Center for the Study of the Longer-Range Future at Boston University serves as a catalyst for studying the improvement of the human condition through an increased understanding of complex trends, including uncertainty, in global interactions of politics, economics, technological innovation, and human ecology. The Pardee Center's perspectives include the social sciences, natural science, and the humanities' vision of the natural world. The Center's focus is defined by its longer-range vision. Our work seeks to identify, anticipate, and enhance the long-term potential for human progress—with recognition of its complexity and uncertainties.

Occasionally, the Pardee Center convenes groups of experts on specific policy questions to identify viable policy options for the longer-range future. The Pardee Center Task Force Reports present the findings of these deliberations as a contribution of expert knowledge to discussions about important issues for which decisions made today will influence longer-range human development.

### **Remittance Flows to Post-Conflict States: Perspectives on Human Security and Development**

Migrant remittances play an increasingly central role in post-conflict reconstruction and national development of conflict-affected states. Violent conflicts and prolonged ethnic and religious hostilities lead to population displacement; the livelihoods of those left behind vitally depend on remittance transfers. Private remittances are of central importance for restoring stability and enhancing human security in post-conflict countries. Yet the dynamics of conflict-induced remittance flows and the possibilities of leveraging remittances for post-conflict development have been very sparsely researched to date.

This Pardee Center Task Force Report on Remittance Flows to Post-Conflict States is the outcome of an interdisciplinary research project organized by the Boston University Center for Finance, Law & Policy, in collaboration with The Frederick S. Pardee Center for the Study of the Longer-Range Future. Convened by Boston University development economist John R. Harris and international banking expert Donald F. Terry, the Task Force was asked to research, analyze, and propose policy recommendations regarding the role of remittances in post-conflict environments and their potential to serve as a major source of development funds. The Report's authors collectively suggest a broader approach to remittance institutions that provides flexibility to adapt to specific local practices and to make broader institutional connections in an era of growing population displacement and expanding human and capital flows. Conditions for more productive use of migrants' remittances are analyzed while drawing upon case studies from post-conflict countries in Africa, Asia, and Latin America.

The papers in this Task Force Report establish the importance of remittances for sustaining local livelihoods as well as rehabilitating institutional infrastructures and improving financial inclusion in post-conflict environments. Highlighting the increasing complexity of global remittance systems, the Report examines the growing informality of conflict-induced remittance flows and explores solutions for more efficient linkages between financial institutions of different scales and degrees of formality. It discusses challenges to regulating international remittance transfers in the context of growing concerns about transparency, and documents the increasing role of diaspora networks and migrant associations in post-conflict co-development initiatives. The Task Force Report authors outline the main challenges to leveraging remittances for post-conflict development and make recommendations for further research and policy applications.

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# Remittance Flows to Post-Conflict States: Perspectives on Human Security and Development

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**The Task Force on Remittance Flows to Post-Conflict States was convened and sponsored by the Boston University's Center for Finance, Law & Policy in collaboration with The Frederick S. Pardee Center for the Study of the Longer-Range Future.**

**Boston University** The Frederick S. Pardee Center  
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This series of papers, *Pardee Center Task Force Reports*, presents findings of experts' deliberations as a contribution of knowledge to discussion about important issues for which decisions made today will influence longer-range human development. The Task Force on Remittance Flows to Post-Conflict States was convened by Prof. John R. Harris and Donald F. Terry on behalf of Boston University's Center for Finance, Law & Policy in collaboration with The Frederick S. Pardee Center for the Study of the Longer-Range Future.

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The Frederick S. Pardee Center for the Study of the Longer-Range Future at Boston University serves as an interdisciplinary catalyst for studying improvement of the human condition through an increased understanding of complex trends in global interactions of politics, economics, technological innovation, and human ecology. The Center's work seeks to identify, anticipate, and enhance the long-term potential for human progress—with recognition of its complexity and uncertainties. The Boston University Center for Finance, Law & Policy practices an interdisciplinary and collaborative mission and methodology to educate, analyze, discuss, recommend solutions, and otherwise address the critical financial, regulatory, and policy challenges of the day as those challenges impact the national and global financial system, the larger economy, and society at large.

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## **ACRONYMS AND ABBREVIATIONS**

<b>ACH</b>	Automated Clearinghouse System
<b>ACS</b>	American Community Survey
<b>ACTED</b>	Agency for Technical Cooperation and Development
<b>AFDB</b>	African Development Bank
<b>AML/CFT</b>	Anti-Money-Laundering/Combatting the Financing of Terrorism
<b>ANP</b>	Awami National Party (Pakistan)
<b>ARENA</b>	Republican Nationalist Alliance (El Salvador)
<b>BCR</b>	Central Bank of El Salvador
<b>BOC</b>	Bank of Ceylon
<b>CBL</b>	Central Bank of Liberia
<b>CFPB</b>	Consumer Financial Protection Bureau
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CGE</b>	Computable General Equilibrium
<b>DCA</b>	Development Credit Authority
<b>EFTA</b>	Electronic Funds Transfer Act
<b>EU</b>	European Union
<b>FATA</b>	Federally Administered Tribal Area (Pakistan)
<b>FATF</b>	Financial Action Task Force
<b>FCS</b>	Fragile and Conflict-affected Situations
<b>FDI</b>	Foreign Direct Investment
<b>FGD</b>	Focus Group Discussion
<b>FMLN</b>	Farabundo Marti National Liberation Front
<b>G-CASH</b>	Mobile-phone based money transfer service (The Philippines)
<b>GCC</b>	Gulf Cooperation Council
<b>GDP</b>	Gross National Product
<b>GIS</b>	Geographic Information System
<b>GNI</b>	Gross National Income
<b>HDR</b>	Human Development Report
<b>HRCP</b>	Human Rights Commission of Pakistan
<b>ICT</b>	Information and Communication Technologies
<b>IFTS</b>	Informal Fund Transfer Systems
<b>ILO</b>	International Labor Organization
<b>IMF</b>	International Monetary Fund
<b>INS</b>	Immigration and Naturalization Service
<b>IRCA</b>	Immigration Reform and Control Act
<b>ISSS</b>	Salvadoran Social Security Institute



<b>ITU</b>	International Telecommunications Union
<b>IVTM</b>	Informal Value Transfer Mechanisms
<b>KP</b>	Khyber Pakhtunkhwa (a province in Pakistan)
<b>LTTE</b>	Liberation Tigers of Tamil Eelam
<b>M-PESA</b>	Mobile-phone based money transfer and microfinance service (East Africa)
<b>MCC</b>	Millennium Challenge Corporation
<b>MFI</b>	Microfinance Institution
<b>MTO</b>	Money Transfer Operator
<b>MVTS</b>	Money or Value Transfer Service
<b>NAID</b>	North American Integration and Development Center
<b>NGO</b>	Non-governmental Organization
<b>NHS</b>	National Health Service
<b>NPFL</b>	National Patriotic Front of Liberia
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>ODA</b>	Official Development Assistance
<b>PB</b>	People's Bank (Sri Lanka)
<b>PFG</b>	Partnership for Growth
<b>POS</b>	Point of Sale
<b>PRS</b>	Poverty Reduction Strategy
<b>SACCO</b>	Savings and Credit Cooperative Organization
<b>SES</b>	Senior Executive Services (Liberia)
<b>SLBFE</b>	Sri Lanka Bureau of Foreign Employment
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TOKTEN</b>	Transfer of Knowledge through Expatriate Nationals (Liberia)
<b>TPS</b>	Temporary Protected Status
<b>TRC</b>	Truth and Reconciliation Commission (Liberia)
<b>UC</b>	Union Council
<b>UCDP/PRIO</b>	Uppsala Conflict Data Program and the International Peace Research Institute, Oslo
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Program
<b>USAID</b>	United States Agency for International Development
<b>VSAT</b>	Very Small Aperture Terminal
<b>WDI</b>	World Development Indicators

# Executive Summary

This Task Force Report is the outcome of an interdisciplinary research project organized by the Boston University Center for Finance, Law & Policy, in collaboration with The Frederick S. Pardee Center for the Study of the Longer-Range Future. The purpose of the Task Force was to research, analyze, and propose policy recommendations regarding the role of remittances in post-conflict environments and their potential to serve as a major source of development funds. The Report's authors collectively suggest a broader approach to remittance institutions that provides flexibility to adapt to specific local practices and to make broader institutional connections in an era of growing population displacement and expanding human and capital flows. Conditions for more productive utilization of migrants' remittances are analyzed while drawing upon case studies from post-conflict countries in Africa, Asia, and Latin America.

Migrant remittances play an increasingly central role in post-conflict reconstruction and national development of conflict-affected states. Violent conflicts and prolonged ethnic and religious hostilities lead to population displacement; the livelihoods of those left behind vitally depend on remittance transfers. Private remittances are of central importance for restoring stability and enhancing human security in post-conflict countries. Yet the dynamics of conflict-induced remittance flows and the possibilities of leveraging remittances for post-conflict development have been very sparsely researched to date. Remittance flows often face severe obstacles in conflict-affected environments, including poor integration with the formal economy and unnecessarily strict regulations.

The papers in this Task Force Report establish the vital importance of remittances for sustaining local livelihoods as well as rehabilitating institutional infrastructures and improving financial inclusion in post-conflict environments. Drawing upon existing networks of social support and interacting with a variety of local institutions, remittance flows can enable connections between diverse organizations and networks, fostering local entrepreneurship and empowerment. Highlighting the increasing complexity of global remittance systems, the Report examines the growing informality of conflict-induced remittance flows and explores solutions for more efficient linkages between financial institutions of different scales and degrees of formality. It discusses challenges to regulating international remittance transfers in the context of growing concerns about transparency. The collection of papers establishes the increasing role of diaspora

networks and migrant associations in post-conflict co-development initiatives, and the growing importance of social remittances in the form of skills, knowledge, and expertise.

The discussions highlight the role of remittances in building local resilience to diverse forms of humanitarian crises. Because of their centrality to many social and economic institutions, post-conflict remittance flows are increasingly critical to all aspects of human security and peace-building for the longer-term. The Report outlines the main challenges to leveraging remittances for post-conflict development and makes recommendations for further research and policy applications. It suggests that remittances are indispensable for achieving human empowerment and agency that promote an improved future for many communities devastated by violent conflict.

## Introduction

# Post-Conflict Remittances and Human Security: Perspectives on Peace-Building, Institutions, and Development

Daivi Rodima-Taylor, Donald F. Terry, and John R. Harris

Vast amounts of capital are transferred around the world through remittances.<sup>1</sup> Remittances can be a major catalyst for economic and social development particularly in post-conflict contexts of widespread population displacement and endemic institutional breakdown. Currently, there is a lack of proper understanding of the role of remittances in the post-conflict processes of rehabilitation, development, and productive investment. Because of the prevalingly informal nature of remittance delivery mechanisms in post-conflict settings, the importance of remittances in the economies of these regions has been vastly underestimated. Yet, remittances could be the largest source of capital for rebuilding post-conflict countries.

Post-conflict situations characterize a country or region that is emerging from a violent conflict or prolonged social, ethnic, or religious hostilities that have resulted in widespread population displacement and the formation of considerable refugee communities abroad. As potential for further violence remains in these fragile settings, remittances play a major role in post-conflict recovery and development. Violent conflicts, civil wars, and rebel insurgencies impact local livelihoods and family relations, networks of social security, and institutional and physical infrastructures. By diversifying local livelihoods and spreading risk, remittances contribute to poverty alleviation. Remittances are not only material but may also include transfers of new skills, values, and technologies. Remittances are important to all aspects of human security, including economic and food security, health, environment, and community.

It has been widely accepted that migrant remittances make up a sizable portion of global financial flows and considerably exceed official development aid: "Taking remittances through unofficial channels into account, remittances are surely greater than foreign aid, and constitute a more constant source of income

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<sup>1</sup> The term "remittances" refers to migrants' material transfers to their country of origin either for personal use, savings, investment, or community development. Remittances can be both monetary and in-kind; individual as well as collective (Lindley 2009).

to developing countries than other private flows and foreign direct investments” (Sorensen, Van Hear, and Engberg-Pedersen 2003, 26). The study of post-conflict remittances has been very sparse, however. In order to facilitate better local access to this vital resource, more research is urgently needed into post-conflict

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**Because of the prevailingly informal nature of remittance delivery mechanisms in post-conflict settings, the importance of remittances in the economies of these regions has been vastly underestimated.**

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remittance flows, the mechanisms of their delivery, and the ways of better integration of remittances in post-conflict reconstruction and development efforts.

## **THE ROLE OF MIGRANT REMITTANCES IN POST-CONFLICT DEVELOPMENT**

Remittances can be of utmost relevance in fighting poverty—by diversifying household sources of income in the contexts of insecurity, providing capital for productive investment and facilitating local markets, and funding education, health, and other social expenses (Plaza and Ratha 2011; Lindley 2009). Numerous studies from Africa have shown that “remittances are associated with a reduction in the share of people in poverty—and, in some cases, the depth and severity of poverty as well” (Mohapatra and Ratha 2011, 17). Evidence from conflict-affected Somalia shows how refugees’ remittances have proved significant in providing “substantial charitable funding for public services and infrastructure—schools, hospitals, mosques and community projects such as building water reservoirs” that have fostered local and decentralized reconstruction processes in the war-torn country (Lindley 2009, 778). Remittances have a potential of contributing to financing post-conflict recovery in the long term. Remittance flows are particularly important for “unbanked” individuals and households and can facilitate their ties with the formal financial sector (Gupta, Pattillo, and Wagh 2009).

The relevance of remittances to the macro-economic development of a post-conflict country is enhanced by their relative independence from economic cycles, making them more stable than private capital flows or foreign development assistance. Remittances help reduce the volatility of capital flows and improve the evaluations of countries’ sovereign ratings, creditworthiness, and outreach to international capital markets (Mohapatra and Ratha 2011, 12).

**Discussion Points from Boston African Diaspora Focus Group on  
"Remittances and Development," held at Boston University's  
Pardee Center, September–October 2012**

- Many members of the Boston African diaspora regularly send money to their relatives and friends in their communities of origin. Although the diaspora members frequently use formal money transfer operators, transaction fees can be prohibitively high. Various informal means of remittance transfers remain popular for that reason.
- Members of the diaspora generally consider remittances to be a very private and personal issue.
- When evaluating the role of remittances in local development, regional, cultural, and religious factors should be taken into account. Some geographical areas have long-standing traditions of labor migration and remittances networks, which may affect the attitudes and behavior of the remitters. Certain religious requirements to dedicate part of one's income for community assistance may also affect remitting behavior.
- Social remittances deserve more attention alongside economic ones. Several cases of successful co-development projects involved transfers of techniques, skills, and expertise.
- Although senders of remittances are often motivated by a sense of moral obligation or debt, they cannot be sure that their contributions are put to good use. Institutional frameworks that enable productive use of remittances are important, including business and skills training, savings, and credit services.
- Although there is great interest among the diaspora in funding co-development efforts, collective remittances for community development projects need careful organization from both the sending and receiving sides. Networks of interested parties may exist in the communities of senders and recipients but these networks must be identified and connected. Institutional capacity is important in remittance transfers for community development projects; it is often easier to work through already established local charitable institutions or informal civil society associations, including village or home-town associations and elders' councils, to set up "development trusts."
- Remittances can foster entitlement and dependency, just like donor development aid. The issues of informed targeting and financial education are important on both sides of the transfers. This can help improve the long-term effectiveness of remittances in addressing issues of human security, and also help resolve differing priorities between senders and recipients.

*Neal Estey, Davi Rodima-Taylor, and John Harris*

But most importantly, remittances are a primary mechanism for rebuilding family ties and connections between individuals in the global contexts of rapidly increasing international human and capital flows: “the commitment to family remains at the core of these flows. In this sense, remittances can be truly characterized as the human face of globalization” (Terry 2005, 6). The nature of transnational migrant networks and diaspora profiles has a decisive role in shaping the impact of migrants’ remittances to the source country’s development. According to recent research findings, both high- and low-skilled diasporas can make important contributions to the development of their homeland (Plaza and Ratha 2011, 7).

While low-skilled diasporas can be particularly relevant in contributing to the welfare of their family members in the contexts of massive forced evacuations that often characterize conflict-affected situations, high-skilled diaspora members can be instrumental in facilitating transfers of skills and technology that are of utmost importance for post-conflict development: “A diaspora can be an important source and facilitator of research and innovation, technology transfer, and skills development” (Plaza and Ratha 2011, 20). Besides material resources, diaspora networks can therefore be an important source of “social remittances” in the form of ideas, values, skills, and behaviors that travel back to the migrants’ communities of origin (Levitt and Lamba-Nieves 2011). By facilitating organizational learning and exchange of knowledge, migrants’ collective organizations can contribute to diverse “state-society synergies” that enhance collaboration between public and private sectors (Levitt and Lamba-Nieves 2011). This calls more attention to policy agendas that facilitate the participation of migrants in the development of their home country, including issues such as multiple citizenship and voting rights. Both categories of migrants also contribute to sending collective remittances through various development projects administered through networks and organizations like “hometown associations (HTAs), ethnic associations, alumni associations, religious associations, professional associations, nongovernmental associations, investment groups, national development groups, welfare and refugee groups, and Internet-based virtual organizations” (Plaza and Ratha 2011, 17). Although such institutions are increasingly prevalent, research of the impacts of collective remittances to the development of migrants’ home countries has still been scarce.

The economic and political support provided by remittance flows and diaspora activities can also potentially serve to perpetuate violence in a conflict-affected setting. There is some evidence that the existence of an extensive diaspora can

pose a considerable risk towards the inception or continuation of a violent conflict (Sorensen, Van Hear, and Engberg-Pedersen 2003; Collier 2000; Anderson 1999). Diaspora remittances in conflict-affected Somalia, for example, have been known to contribute to military and political purposes like rebel movements, warring factions, and localized clan conflicts over natural resources, in some cases “helping armed factions and precarious local administrations survive without delivering much to the people” (Lindley 2009, 778). Although the impacts of remittance transfers differ from one case to another, attention to proper development policies is crucial: “More thought needs to be given to the extent to which policy interventions can encourage the deployment of transnational activities in a positive direction, such as towards conflict resolution or post-conflict reconstruction” (Sorensen, Van Hear, and Engberg-Pedersen 2003, 27).

### **FORCED MIGRATION AND MASS DISPLACEMENT: IMPLICATIONS FOR REMITTANCES**

Although economic migration based remittances have received a considerable share of attention recently, the role and dynamics of remittances in conflict-affected settings has remained relatively unexplored. Forced migration is a sudden and unplanned event rather than a carefully devised household income diversification strategy as is often the case with labor migration. The situations of forced migration, however, are frequently known for heightened remittance flows: “We often do not recognise that many of the countries where remittances are most significant owe this largely to mass migration in the wake of recent conflicts and political upheavals—official remittances are 10 percent or more of GDP in Bosnia and Herzegovina, El Salvador, Haiti, Lebanon, Nicaragua, and Serbia and Montenegro” (Lindley 2009, 775). Migrant remittances can be a crucial resource for avoiding further displacement: “Those who stay are highly vulnerable and, more often than not, economically dependent. Conflict tends to undermine both general economic stability and personal livelihoods. Coping strategies, where possible, include economic support from relatives who have migrated” (Fagen and Bump 2006, i).

Violent conflict and poverty are interwoven and often contribute to each other. Because of that, boundaries between economic and refugee based migration are often blurred: “What begins as economic migration may transmute into internal displacement or international refugee movements, and conversely, what are originally refugee movements may over time develop into other forms of movement” (Sorensen, Van Hear, and Engberg-Pedersen 2003, 14). Different types of refugees



often mix in the countries of destination, making it difficult to distinguish remittance flows based purely on forced migration. However, forced displacement on remittance flows and their impact on the development of the source country have several distinctive characteristics. First, the mass character of the exodus often means that conflicts are usually accompanied by displacements of large numbers of population within a relatively short time. That may also pose at least temporary challenges to the operation of remittance transfer systems between the countries of origin and destination. Secondly, many refugees often stay in the neighboring areas within the region instead of migrating to economically better-off countries, which may result in lower levels of remittances at least at the beginning of the conflict. Thirdly, the refugees may end up in displacement camps and other protracted situations of uncertainty, which may further impair their ability to remit: "The displaced often find themselves in a state of protracted limbo. Nationality or citizenship may not be easily acquired or reacquired, and is often disputed or problematic" (Sorensen, Van Hear, and Engberg-Pedersen 2003, 15). Because they occur in contexts that are often governed by profound uncertainty and instability, remittances from forced migration should not be seen as deliberate and carefully planned strategies for household income diversification and risk aversion (Lindley 2009). The lack of explicit contracts with family members in the source country renders the behavior of conflict migrants less motivated by expectations of future return. At the same time, the urgent need of the family members left behind in conflict settings for economic support may be a powerful motivating factor: "Refugees might be more likely than other migrants to remit out of altruism to meet material needs of family members" (Lindley 2009, 780). Therefore, despite the challenges, the remittances of those displaced in the conflict frequently remain a primary resource for economic support for those left behind as well as for national development and institution-building of the post-conflict country.

## **RECONCEPTUALIZING POST-CONFLICT DEVELOPMENT: POLICY FRAMEWORKS**

Insecurity and repeated cycles of violence have become primary obstacles to development in many parts of the world. Conventional war between nation states has gradually been replaced by a more chaotic and complex dynamic of violence, including criminal activities, trafficking and terrorism, and chronic civil unrest (The World Bank 2011, 2). The total number of deaths from civil wars is declining, but repetitive cycles of violence facilitate other forms of illegality and hinder economic and social development. People in conflict-affected envi-

ronments “are more than twice as likely to be undernourished as those in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age five, and more than twice as likely to lack clean water” (The World Bank 2011, 5).

The changing nature of violent conflict and its social and economic consequences has also created the need to reconceptualize research and policy approaches to post-conflict settings. According to a broad definition, a post-conflict country is a country that is emerging from a severe conflict. In post-conflict situations, open warfare has ended, but a potential for violence remains (Waltensteen 2007). Post-conflict contexts are characterized by human loss, destruction of infrastructure and means of production, as well as adverse economic and political conditions (Collier 2000). Attempts to precisely identify a post-conflict condition in any given case, however, are faced with increasing challenges in determining the beginning and end dates of the post-conflict period. Despite signing formal ceasefire agreements, unrest may still fester and conflicts flare up, destabilizing the peace process. It is also increasingly difficult to determine at what point in time the consequences of the conflict would lose their disruptive influence; under conditions like that, “it is impossible to say exactly when a country returns to normalcy from its post-conflict state” (Nkurunziza 2008).

The increasingly recurrent and ambiguous nature of violent conflicts is also reflected in recent research and policy approaches to conflict-affected states. The UCDP/PRIO<sup>2</sup> Armed Conflict Dataset, for example, lists multiple separate recurrent incidents for many of the 50+ countries that have experienced violent conflict in the last 30 years.<sup>3</sup> UCDP emphasizes its focus on political determinants and frameworks of the conflict as well as organized parties using violent means, over the previous emphasis on conflict as primarily a function of fatalities (Strand and Dahl 2010). The focus on diverse state and non-state actors and political incompatibilities also highlights the ambiguities relating to the definition of “post-conflict” and lays emphasis on the increasingly recurrent character of violence in present-day societies.

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2 Uppsala Conflict Data Program and the International Peace Research Institute, Oslo, have produced a dataset of external and internal armed conflicts for the period of 1946–2008. Key variables of the dataset concern incompatibility, actors of the conflict, and its intensity.

3 According to UCDP definition, conflict is defined as “a contested incompatibility that concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle related deaths” (The UCDP/PRIO Armed Conflict Dataset Codebook, p. 1).

According to the World Bank estimations, about 40 percent of conflict-affected and post-conflict countries relapse into conflict within 10 years. Fragile and conflict-affected situations (FCS) are also responsible for increasing poverty and declining social conditions in many poor countries. To better address the needs of conflict-affected situations, the World Bank has recently emphasized the need for a broader, more issues-based approach to conflict and fragility. According to *The World Development Report 2011: Conflict, Security and Development*, the risk of violent conflict in a country or region stems from a combination of internal and external stresses with which the country lacks effective institutional capacity to cope. Weak state, market, and social institutions can therefore be seen as primary factors contributing to chronic unrest and violence. One of the main reasons of that fragility is the low priority frequently given to the rebuilding of national institutions. For peace and development to become sustainable, the existence of functioning and self-sustaining government systems becomes crucial: “The end of fighting does offer an opportunity to work towards lasting peace, but that requires the establishment of viable institutions, capable of ensuring lasting security for the entire population” (Brahimi 2007). For rebuilding the institutional infrastructure, strong partnerships of the international development community with national and local stakeholders become particularly urgent (Brahimi 2007).

A significant shift in the international development discourse can therefore be observed that affords increasing attention to sustainable institution-building instead of mediating conflicts between distinct parties or adversaries for achieving lasting peace in conflict-affected areas. Focus on broader settings that can provide security, justice, and economic sustenance to individuals and communities affected in the crisis is reflected in the human security approach to post-conflict development.

## **HUMAN SECURITY AS A NEW PARADIGM FOR POST-CONFLICT DEVELOPMENT**

Human security has, in recent years, become a defining concept in many global policy initiatives centering on post-conflict rehabilitation and peace-building.<sup>4</sup> It emerged as an alternative paradigm in the multipolar world at the end of the

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4 The human security approach as a novel direction to development was first presented in the UNDP 1994 Human Development Report that called for a broader interpretation of the concept of security which would take into account its people-centered character. Emphasizing the need for protection from both chronic and sudden disruptions in people’s daily lives, the concept signified “a shift from security through armament to security through sustainable human development” (Frerks and Goldewijk 2007, 26).

Cold War when it became evident that the nature and modes of management of violent conflicts have profoundly changed: “Attention is now drawn to persistent and diffuse regional conflicts in fragile, failing, and failed states plagued by problems that inhibit their basic governing capabilities, including mass displacement of populations, uneven economic development, delegitimization of the state, and the rise of factionalized elites” (Goldsworthy 2010, 451). The processes of liberalization and globalization have created new political spaces, but also given rise to new conflicts and instabilities. Increasing transnational mobility and diversity of interests and affiliations have profoundly changed the contexts for security management. The concept of human security constitutes a conceptual shift from a state-centered security paradigm to an individual and community-centered approach. Through a focus on diverse factors that can undermine security and well-being from a human centered perspective, a human security approach promotes concentration on a broader set of problematic issues, including environmental, social, and economic causes of vulnerability. Human security therefore enables a more integrated approach that relates the concerns stemming from violent conflicts as well as increasing economic inequalities and deprivation: “Essentially human security is both about preventing violent conflict and reducing the multiple deprivations and social inequalities experienced by people” (Taylor 2004, 66).<sup>5</sup>

The human security approach allows a broader focus that goes beyond armed conflicts, recognizing a variety of factors that can destabilize peace and security. These threats fall into diverse categories—economic security, food security, health security, environmental security, personal security, community security, and political security (Therien 2012). Famines, environmental shocks and disasters, financial crises as well as various forms of violent unrest and criminality are thereby all seen as potentially disruptive to peace and development. One of the major contributions of the human security approach is highlighting the increasing interconnectedness of these threats that suggests a need to build local resilience to diverse shocks and disruptions.

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5 A broader approach to security that links peace to the issues of social justice and sustainable development is not an entirely novel phenomenon. Even before the recent systematic articulation of the human dimensions of security, elements of more comprehensive approaches to security issues have been elaborated in various earlier UN initiatives including the Brandt Commission, Palme Commission, and Brundtland Commission of the 1980s that highlighted the connections between peace, poverty, environment, and economic development (Therien 2012, 192). The 1994 UNDP report articulated the need for a redefinition of the concept of security along the following lines: “From an exclusive stress on territorial security to a much greater stress on people’s security’ and ‘[f]rom security through armaments to security through sustainable human development’” (cited in Therien 2012, p. 199).

Because of its focus on the multidimensional aspects of sustainable peace-building, the human security approach has profoundly impacted global policies of interventionism in armed conflicts: “Bringing together security, political, humanitarian, and economic goals, the multi-dimensional approach of peace-building has spawned a variety of practices, including the disarmament and social reintegration of combatants, the reform of the security sector, demining, the negotiation of peace accords, the organisation of elections, the establishment of independent legal systems, the repatriation of refugees, the promotion of human rights, and the framing of economic development strategies” (Therien 2012, 206). With its focus on post-conflict participatory institution-building rather than military protection, the post-interventionist approach<sup>6</sup> to human security highlights local resilience as a key to sustainable peace-building (Chandler 2012). Defined as “the capacity to positively or successfully adapt to external problems or threats,” the concept of resilience draws attention to a subject who is an active agent, capable of self-transformation (Chandler 2012, 217). Instead of treating conflict-affected populations as victims in need of external protection, the resilience paradigm to human security places an emphasis on broader institutional framework for the management of security concerns through local empowerment and participatory capacity building (Chandler 2012). The focus on multi-faceted local development over military-strategic considerations in the security discourse has opened up new spaces of collaboration including the state, policy makers and military specialists, but also “non-traditional’ actors, such as local civil society organizations, women groups and international NGOs” (Frerks and Goldewijk 2007, 28).<sup>7</sup> The multi-sided participatory post-conflict development approach advocated by the human security discourse therefore draws attention to the importance of cooperation among a wide range of transnational and local actors and the issues of sectorial and institutional coordination in post-conflict development.

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6 Human-centered approaches to security have sometimes been criticized for a narrow focus on armed protection and military intervention, together with an emphasis on individual rights and economic objectives that may come at the expense of equality and social goals. To address these potential pitfalls, there has been an increasing emphasis in policymaking on long-term strategies to prevent insecurity and vulnerability that may lead to violence. The “interventionist” paradigm to the protection of human rights of the 1990s is increasingly being replaced by a “post-interventionist” paradigm that recognizes the importance of jointly shared responsibility for peace and long-term development.

7 One example of the increasing and multi-faceted global cooperation that is framed by the concept of human security is the United Nations Millennium Development Goals that set strategies for the reduction of human global poverty by analyzing the causes of diverse kinds of insecurity and allocating multi-sided responsibilities for achieving the entitlements of the individuals in poor countries: “The human security approach engenders the collaboration necessary between diverse kinds of national governments, multilateral governing bodies and NGOs in order to bring them together around a common goal of increasing individual securities” (Goldsworthy 2010, 453).

## REMITTANCES AND POST-CONFLICT RECONSTRUCTION

Remittances can be a valuable resource for post-conflict reconstruction. Their application, however, depends on a favorable policy environment and effective coordination among different sectors and development actors. The use of migrants' remittances in development is often hindered by insufficient international frameworks for labor and remittance flows and a

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**Policymaking processes surrounding post-conflict remittances often face the challenges of unavailable or inconsistent data about remittance flows, their channels, and uses.**

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poor coordination of these: "Current international institutions provide little space or initiatives for negotiations on labour mobility and the flow of remittances. There is a pressing need to reinforce the view of migrants as a development resource" (Sorensen, Van Hear, and Engberg-Pedersen 2003, 6). The authors suggest that better coordination is needed for policies concerning migration, development aid, refugee protection, and humanitarian relief.

Policymaking processes surrounding post-conflict remittances often face the challenges of unavailable or inconsistent data about remittance flows, their channels, and uses. Recent discussions among international development actors about leveraging remittances for development have concentrated on the need to improve the quality of available data on remittance flows and modes of transfer, particularly by expanding formal reporting to include non-banking institutions involved in remittance transfers, conducting household surveys among senders and recipients, and estimating remittance flows based on available migration statistics in the countries of destination (Mohapatra and Ratha 2011, 38–39).

To maximize the contributions of post-conflict remittances for poverty alleviation and national development, collaboration among a wide range of stakeholders is crucial. These include local, national, and transnational actors, and formal as well as informal institutions. Input from all of these groups is critical to reestablishing well-functioning financial systems and regulatory frameworks. Well-functioning remittance systems, in turn, are extremely important for the redevelopment of the country's financial sector, thereby contributing to private sector development and overall poverty reduction. Because of the post-conflict breakdown and instability, most remittances reach post-conflict societies through informal means, posing a specific set of challenges to their integration into the country's financial system. However, remittances also have a potential to serve as an important entry-point to financial inclusion: "The very process of sending and

receiving remittances provides an enormous opportunity for millions of families to enter the world's financial system: to open a savings account, or obtain a loan or mortgage" (Terry 2005, 11).

Local development initiatives can be very important in post-conflict situations. Building upon existing remittance systems and encouraging local initiative rather than seeking to import formal financial institutions is relevant in conflict-affected contexts where basic financial and legal infrastructures are severely lacking and large parts of populations are displaced: "By focusing on what is left after the conflict, rather than what is lost, it is then possible to begin to see the full potential of remittance systems as potential partners in the development of financial systems" (Maimbo 2007, 28). Maimbo emphasizes that sustainable financial reforms are long-term processes that require proper sequencing and institutional integration, and introducing and supporting a competitive and diversified environment for remittance services can often be pivotal. The processes of financial sector development and diversification should therefore accord more attention to "promoting alternative providers such as microfinance institutions, credit cooperatives, and postal savings banks" (Mohapatra and Ratha 2011, 40). That involves improving coordination among various regulatory entities and legislatures as well as promoting novel institutional linkages for sending and delivering remittances: "Financial democracy also requires new partnerships: with civil society, nongovernmental organizations, microfinance institutions, and others close to remitters and their families" (Terry 2005, 12).

There is an increasing recognition of the need to view financial inclusion initiatives as an integral component of human security. As emphasized in the UN Millennium Development Goals that operationalize the components of human security and set forth strategies for a multi-sided cooperation for global poverty reduction, financial inclusion and microfinance initiatives should not be seen as separate from issues such as environment, health, education, and gender empowerment. Therefore, there is a need to focus on broader, transformational goals of financial inclusion, apart from transactional ones like the flow of people and capital within microfinance institutions (Goldsworthy 2010, 455). As building local resilience to a multitude of partially related hazards—economic, environmental, and political—is therefore at the forefront of post-conflict development, remittance systems should involve linkages to diverse local institutions and different social and economic realms.

In local communities, remittances circulate through local associations and networks of mutuality, trust, and solidarity. The role of social capital is particularly important in creating sustainable institutional linkages on multiple scales. In post-conflict contexts, the fragility of existing institutions hinders their ability to link with each other and additional groups, networks, and institutions to bolster important social systems (Vervisch and Titeca 2010). Attempts by outside groups to facilitate connections among institutions often focus on the technical aspects of institutional operations and overlook the social and political contexts, resulting in the existing elites retaining leadership and disrupting opportunities for local leadership to evolve (Vervisch and Titeca 2010; Brune and Bossert 2009). Thus, the challenge of post-conflict institutional development is determining how best to help improve the ability of local institutions to connect with existing local social support systems, which in turn have been disrupted by widespread population displacement and social and physical devastation.

External interventions in institutional syncretism can often be technically oriented rather than socially and politically embedded, leading to favoring of the existing elites and interfering with the evolution of local leadership (Vervisch and Titeca 2010; see also Brune and Bossert 2009). The challenge of post-conflict institutional development therefore lies in facilitating the building of local social capital endowments to enhance the bridging capacities of local institutions. In such environments, customary security networks and group loyalties are often weakened due to widespread population displacement and social and physical devastation.

Because of severely limited access to land and natural resources and the breakdown of formal infrastructure, economic exclusion is a serious issue in post-conflict communities; as a result, informal businesses and second market activities emerge as major coping mechanisms (Cain 2007). Facilitating the post-war informal economy is therefore frequently seen as central to the rehabilitation of the affected communities. This includes investing in the informal economy through micro-loans and savings mechanisms (374–375). The role of grassroots associations and informal micro-businesses is increasingly discussed in recent studies of post-conflict development. In post-conflict Liberia, for example, the growing importance of informal businesses over subsistence farming has been observed, and these businesses are financed primarily through indigenous rotating money saving schemes (locally called *susu*)—about 70 percent of local business owners were observed to use these informal clubs (Tarway-Twalla 2011, 63). This highlights the importance of collaborating with these diverse local financial



associations for post-conflict institution-building. It also highlights the unique capability remittance transfers often provide for expanding financial inclusion in conflict-affected environments.

Partnering with local microfinance institutions can be an important strategy for expanding remittance delivery channels and leveraging remittances for local development. Microfinance organizations and other semi-formal local financial institutions expand people's options for financial inclusion, especially in marginal, remote, and low-income communities: "Increasing access to savings and credit products tailored to low-income families can help families receiving remittances channel these funds toward future investments, such as in housing, education, or microenterprise" (Jaromillo 2005, 133). In many cases, these organizations have good knowledge of local communities and their clients' needs as well as the necessary experience and physical infrastructure for providing financial services to local "unbanked" populations. As many microfinance programs emphasize social and empowerment goals alongside economic ones, these institutions have the potential to connect remittances with wider development goals of the local communities. Besides novel organizational forms and alliances, the use of new information and communication technologies like mobile phone based financial applications for cross-border remittance transfers have proven increasingly relevant for remittance delivery in post-conflict settings.

All of this suggests that when leveraging remittances for post-conflict reconstruction, diversification of multi-scale institutions and partnerships for better remittance delivery and their more efficient use for poverty reduction and productive investment is vital. This necessarily includes fostering collaboration and coordination among local political, social, and financial groups and institutions with a shared goal of leveraging remittances to enhance human security in post-conflict contexts.

## **CONTRIBUTIONS OF THE REPORT TO ANALYZING REMITTANCES IN POST-CONFLICT DEVELOPMENT**

The papers of this Task Force Report investigate some critical issues involved in leveraging remittances for post-conflict development as well as outline directions for policy changes and future research. The topics discussed include broader analytical issues pertaining to remittance systems, diaspora networks, and the impact of remittances on post-conflict social and economic rehabilitation, as well as country-specific issues drawn from a variety of conflict-affected settings in different parts of the world.

Conflict-induced remittance systems are often informal in character, embedded in existing social institutions and networks of reciprocity. The informality of post-conflict remittance transfers poses challenges to their integration into rehabilitation and development efforts. The nature of the remittance systems that characterize many post-conflict settings is discussed and their potential for facilitating multi-level institutional linkages is explored. Contemporary informal remittance systems form increasingly complex global financial networks that are still very poorly understood. The Report suggests that the formalization of remittance transfer systems should be seen as a local and socially embedded process, and opportunities for further institutional development and diversification should be sought in collaborative efforts among a broad set of local and global actors. Regulatory amendments are also discussed that currently define remittance transfers to post-conflict countries. The Report reveals the ways the existing regulations may inhibit remittance flows through formal channels as they have been designed for remittance contexts that are characterized by predictability, transparency, and well-developed financial infrastructure. Suggestions are offered for introducing more flexibility into regulatory frameworks for transnational remittance transfers.

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**The Report reveals the ways the existing regulations may inhibit remittance flows through formal channels as they have been designed for remittance contexts that are characterized by predictability, transparency, and well-developed financial infrastructure.**

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The integral connections among diverse aspects of vulnerability are also examined, particularly the relationships between building resilience to violent conflict and adaptation to environmental hazards. A paper concentrating on the impact of remittances to community resilience in Northwestern Pakistan points out the importance of viewing human conflict in combination with environmental crisis when exploring the role of remittances in local adaptation to vulnerability. That discussion highlights the role of remittances as an adaptive mechanism to multiple simultaneous crises and disruptions.

The Report also focuses on the contributions of diaspora networks and migrant associations to post-conflict development. There is discussion of novel types of government–diaspora collaboration that have potential to facilitate post-conflict rehabilitation, with a focus on using information and communication technology for financial empowerment of the poor in El Salvador and benefit the communities of both senders and recipients of the remittance flows. Emigration of health specialists from conflict-affected countries is also discussed, and some measures

are proposed to avoid the associated brain drain and to encourage the return of skilled professionals to their countries of origin after a humanitarian crisis. The role of social remittances like skills, technology, and knowledge in the rehabilitation of post-conflict societies is examined in the examples of Liberia and Sri Lanka. Conditions for more productive use of migrants' remittances are analyzed while drawing upon case studies from post-conflict countries in Africa, Asia, and Latin America.

The focus of this volume is on the increasing connectedness of diverse aspects of human vulnerability that may disrupt peace and development, and the role of remittances in building local resilience through a broad range of local institutions and with attention to individual and community empowerment. Although remittances have a vast potential to enhance post-conflict human security, the integration of remittance flows into economic and social rehabilitation efforts still faces considerable challenges. The main findings of the Report as well as suggestions for further research and policy application are outlined in Section IV.

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# Section I: Remittance Transfer Systems: Issues of Formalization and Regulation

## 1. "Informal" Remittance Systems and Post-Conflict Development

Daivi Rodima-Taylor

In settings of widespread human and infrastructural devastation, the role of migrant remittances can be pivotal. Violent conflicts and prolonged ethnic and religious hostilities lead to population displacement and the formation of large refugee communities abroad. The livelihoods of those left behind can be vitally dependent on remittance transfers. Private remittances also form a crucial resource for the national development of post-conflict states amid a breakdown of formal financial institutions and poorly functioning governments.

Most remittance flows in these fragile environments are transferred through informal channels and draw upon existing social institutions and solidarity networks. Although conflict-induced remittance flows are more precarious and unpredictable than those resulting from labor migration, conflict refugees frequently exhibit a strong motivation to improve the welfare of their relatives left behind (Lindley 2008). Conflict-induced migrants may build upon already existing labor migrant communities in their destination countries, further contributing to the establishment of vibrant regional remittance networks among the diaspora. Many of these networks rely on culturally embedded ways of transmitting money back to the countries of origin, including informal remittance systems like *hawala* and others discussed in more detail later in this section. As legal money transfers are increasingly inhibited by stringent international anti-crime and anti-money laundering regulations, informal modes of remitting are diversifying and growing in volume (Fagen and Bump 2006). It has been estimated that informal remittances amount to as much as 450 billion USD annually (Slota 2012).

The informality of post-conflict remittance flows poses challenges to their integration into national rehabilitation and economic development efforts. Populations in conflict-affected countries are severely limited in their access to financial services due to the lack of legal and regulatory frameworks, payment infrastructures, or functioning systems of credit collaterals (Maimbo 2007). Attempts to capture informal remittances by formalizing their delivery systems have therefore not had much success in contexts like these. This draws attention to the need for a

broader approach to post-conflict remittance systems and the possibilities of their institutional integration. Conflict-induced remittance systems have often proven to be highly entrepreneurial in character, encouraging local adaptations that create linkages between financial institutions of different levels and degrees of formality. Contemporary informal remittance systems form increasingly complex global financial networks that are still very poorly understood. This section examines the modern informal remittance sector with its origins, social embeddedness, and global connections, and explores the contributions and challenges of informal remittances to post-conflict development. A broader approach to remittance institutions is suggested that provides flexibility to adapt to specific local practices and to draw broader institutional connections in an era of growing population displacement and increasing movement of people and capital across international borders.

### **INFORMAL REMITTANCE TRANSFER SYSTEMS: ORIGINS AND HISTORY**

The modes of remittance delivery have frequently been divided into the categories of “formal” or “mainstream” and “informal” or “alternative.” Formal channels of remittance transfer include banks as well as some non-bank financial institutions such as dedicated and licensed money transfer operators (including Western Union and MoneyGram), post offices, and various side services offered by microfinance institutions or credit unions. Alternative or informal modes of transfer include physical transfers or courier services of money or goods (often via traders or public transport operators); sideline remittance services offered by various types of cash-intensive businesses (shopkeepers, market traders, foreign exchange outlets, travel agents, phone and fax shops, transportation companies); sharing stored value, debit and credit cards; as well as dedicated small-scale money transmitters (Sander and Maimbo 2003; Pieke, Van Hear, and Lindley 2007; Passas 2003). Remittances classified as “informal” or “alternative” therefore lie outside the realm of banks or licensed money transfer companies, and their supervision by regulatory agencies is generally limited.

One of the most widespread informal money transfer systems, *hawala*, originates in early Middle Eastern and South Asian societies and has a rich and complex history. As a mechanism for debt transfer, it emerged as a tool to facilitate long-distance and cross-border trade in conditions of incomplete legal frameworks and insufficient means of payment. Various similar arrangements have been recorded in many parts of the world—including *fei-ch'ien* or the Flying Money system of China, which emerged in the second half of the first millennium and played an

important role in country-wide tea and cotton trade; *hundi* of South Asia (including India, Sri Lanka, Pakistan, Bangladesh, Iran, and Afghanistan); *padala* of the Philippines, *phei kwan* of Thailand, and even the bills of exchange<sup>1</sup> of medieval Europe, which were used for transmitting money (El Qorchi, Maimbo, and Wilson 2003; Hariharan 2012). *Hawala* translates as “transfer” in Arabic, and *hundi* means “trust” in Hindi. The terms have been applied to both instruments of transfer and credit (a promissory note or bill of payment) as well as to the complex system of credit relations within which they operate.

In early mercantile networks, one of the main functions of *hawala* may have been facilitating trade rather than transfer of remittances. Martin (2009) argues that the historical trade dimension of *hawala* has often been underestimated, making it easy to overlook its potentially complex connections to the movement of goods and capital. Some historical records indicate that *hundi* or promissory notes were developed in India

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**Conflict-induced remittance systems have often proven to be highly entrepreneurial in character, encouraging local adaptations that create linkages between financial institutions of different levels and degrees of formality.**

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earlier than paper money, were issued by brokers for the purpose of debt collection, and used among traders for financing internal trade (El Qorchi, Maimbo, and Wilson 2003, 19). Playing an important role in medieval Indian merchants’ networks, *hawala* transactions have fostered administrative and military expansion of different regimes by creating reliable routes for monetary and trade flows (Martin 2009). The ability of *hawala* to successfully operate in the environments of incomplete or incompatible legal and fiscal systems has contributed to its independence of formal regulatory frameworks.

This self-sufficiency has been grounded in the mechanisms of effective self-regulation entailed in *hawala* arrangements; *hawala* is deeply embedded in cultural and religious traditions and also has certain systemic characteristics. One of the elements responsible for *hawala*’s resilience is its composition as a chain of loosely connected transactions. Instead of a reciprocal set of exchanges, it can be seen as a network of “relational contracts” among a multitude of participants. Schramm and Taube (2003) differentiate two distinct operating layers in the *hawala* contract: “core transactions” between the *hawaladar* and “peripheral transactions” between *hawaladar* and their clients. They argue that the core

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<sup>1</sup> A bill of exchange was “an obligation in the form of a payment order addressed to the person responsible for honoring the payment” (El Qorchi, Maimbo, and Wilson 2003).



networks can be seen as “homogenous clubs” that enable their members effective safeguarding of their contractual agreements and lower transaction costs—as voluntary groups “gaining mutual benefits from sharing” production costs and benefits (Schramm and Taube 2003, 411). The authors liken the *hawala* network to other informal financial institutions like rotating savings and credit associations that similarly arise in the contexts of insufficient formal financial institutions and enable people transactional security through reference to social and cultural safeguards. One of the main elements securing an orderly functioning of the network is its reliance on social prestige and reputation. Cooperative behavior enhances one’s reputation and increases the trust between the transactors, enabling them further benefits through continued participation in the network. Islamic religious and ideological values are also of relevance in ensuring the widespread social acceptance of certain norms of reciprocity that are instrumental to the functioning of the *hawala* transactional system (Schramm and Taube 2003). The unified ethical and legal framework provided by Islamic religious traditions and Islamic law (*Shari’a*) helped facilitate dispute negotiation and regulate uncertainties involved in complex business transactions between fragmented political alliances of the pre-modern Near and Middle East (Razavy 2005, 281).

The importance of cultural values and templates is evident not only in the functioning of past *hawala* arrangements but also in present-day transnational diaspora networks. Monsutti (2004) describes how culturally recognized mechanisms of solidarity and competition have been instrumental in forging a durable transnational community among the Hazaras (the third largest ethnic group of Afghanistan) through remittance transfers. Cooperation among the Hazaras is shaped by the norms of domestic solidarity and hierarchical competition that are embedded in local patrilineal kinship structures. These patterns of alliance-building and fragmentation have become pivotal in structuring social interaction in the absence of effective state administration (Monsutti 2004). The cultural templates of forging fictive kinship relations are of a particular importance in facilitating the transnational networks of Afghani refugees in Pakistan, Iran, and beyond through transfers of money and merchandise. *Hawala* therefore contributes to building both material wealth and social ties among the transnational Afghani community, providing Afghani refugees with means to cope with dispersion and insecurity (Monsutti 2004, 239). The relevance of Hazara patterns of cooperation in forging new global alliances underlines the importance of cultural practices and values of the migrants in the transnational circulation of material and social remittances

(Levitt and Lamba-Nieves 2011). It also highlights the relevance of such locally embedded value transfer mechanisms for post-conflict reconstruction processes.

The importance of cultural values and norms in the functioning of *hawala* has also been noted elsewhere. Ballard (2003) reports that many *hawala* operators in the UK-based South Asian (particularly Indian and Pakistani) networks draw upon quasi-kinship relationships with their partners and clients, and kin or peer group guarantees are crucial in repayment of debts and fulfilling obligations (Ballard 2003, 15). Behind the cultural logic are strong economic incentives. If one's contractual obligations are not fulfilled, the person is excluded from the system. The religious and ethnic dimensions present in *hawala* networks often prohibit transactions with groups of different affiliations (Schramm and Taube 2003, 412). Despite the lack of formal regulations or written sanctions, *hawala* networks are bound by effective social and cultural codes of conduct.

### **MODERN HAWALA AS A GLOBAL VALUE TRANSFER NETWORK**

Somewhat paradoxically, the rise of modern Western banking has not rendered *hawala* obsolete; its relevance has been on the rise in many parts of the world in recent decades. Some reasons for the vibrant reemergence of *hawala*-based money transfer arrangements include fast increases in remittance rates due to growing migration from developing countries to the Western world; dramatic expansion of the manufacturing and business sector in India, China, and South East Asia with restrictions that limit foreign exchange; and the rapid development of modern information and communication technologies (Ballard 2003, 6). The modern *hawala* is a highly efficient system of transnational money transfers that has developed through modifying age-old principles of informal money transfer networks. Providing their customers with reliable means for transferring funds, *hawala* operators enable more diversified outreach and better exchange rates than licensed financial institutions, strongly contributing to *hawala's* economic attraction (Wilson 2002, 3–4).

The functioning of the modern *hawala* involves an intriguing combination of contemporary and more traditional organizational principles. According to Ballard, contemporary *hawala* arrangements have a clearly economic rationale as they offer their customers considerable advantages over formal financial services; at the same time, some degree of familial or quasi-familial connections is vital to secure an efficient functioning of the network of *hawaladar* (7). Compared to the formal financial sector that draws upon bureaucratic procedures and safeguards, trust in *hawala* transactions is articulated on a more personalized basis (29).

That personalized nature of *hawala* transactions also enables its constituent parts greater anonymity and fragmentation, reducing the transparency of the overall transaction. Although it can often vary in complexity, the basic *hawala* mechanism works as follows:

An immigrant in one country wishing to send money back to his family in another country pays the sum of money (and often a small fee) to a transfer operator (*hawaladar* A) in the first country, who then contacts his associate (*hawaladar* B) in the second country to inform him of the payment amount and password. The client in the first country communicates the password to the money recipient in the second country, and the second transfer operator releases the funds to the recipient. That completes the immediate part of the transaction, with no actual funds been transferred between the two *hawaladar*. Record-keeping is usually minimal, and most of the transfers can be completed within 24 hours. At some later point, clearing of account balances has to occur between the two *hawaladar*. That can take place as a movement of goods and merchandise or in some other form. Therefore, connections between these different parts of the transaction are usually far from obvious. Simple bilateral *hawala* transfers rarely exist as remittance flows are by definition asymmetrical (Wilson 2002). *Hawala*-related counter-transfers may take several forms, including bilateral or multilateral financial settlement or trade, international investment, purchase of educational or medical services abroad, but may also include illegalities like misstatement of trade values or smuggling prohibited goods (Ballard 2003, 8; Hariharan 2012).

The increasing diversity entailed in the settlement processes at the end of *hawala* transactions has created a surge towards financial consolidation, adding another layer of complexity to the system. A multi-tiered system has developed for balancing *hawala* accounts, with balances transferred to increasingly diverse localities and actors (Hariharan 2012, 284). That has led to a constant evolvement of higher levels of the network containing intermediaries active in consolidating the claims of lower-level operators. Dubai has emerged as one of the main hubs for such services, with over 100 exchange houses centered in the United Arab Emirates (Wilson 2002).

The rapid development of such centralized hubs for consolidating *hawala* settlements has further blurred the boundaries between formal and informal.<sup>2</sup> Ballard (2003) argues that the exchange houses in Dubai are facilities in which

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<sup>2</sup> The evolvement of centralized hubs of “wholesale” *hawala* brokers has also been a factor in the recent development of the specialized money transfer enterprises out of Somali *xawilaad* arrangements (Hariharan 2012, 285).

“bilateral and multilateral exchanges of *hawala* debts involving hugely consolidated tranches of funds can be lined up and swapped on a global scale” (29). In such exchange hubs, the digital movement of *hawala* funds is routed through other global financial centers, including New York and London (Ballard 2003). On the one hand, connections to the formal sector are therefore integral to the functioning of the *hawala* system at the global level, as ultimately “virtually all transactions are settled through the formally organized banking system” (28). On the other hand, the constituting principle of *hawala* networks where reciprocities operate on a personalized basis remains rather different from the formal bureaucratic underpinnings of the banking sector. As Ballard points out, the hub in Dubai depends on its “capacity to facilitate complex swaps between networks operating on a basis of unqualified trust in European, North American, West Asian, Iranian, Afghani, South Asian, Chinese, and South East Asian markets. Once relationships of trust are in place, which at this level are organized primarily in terms of quasi-kinship, differences in ethnicity and nationality are no obstacle to the construction of *hawala* deals” (34). Thus, the workings of the modern-day *hawala* present a fascinating combination of highly personalized trust relationships and quasi-kinship reciprocities between individuals, and highly anonymous digital capital flows routed through the global banking system.

### **THE ROLE OF HAWALA IN POST-CONFLICT REMITTANCE TRANSFERS**

Grounded in culturally determined patterns of reciprocities, informal remittance transfer systems like *hawala* can be economically competitive and adaptive in modern conditions. That is particularly evident in conflict-affected societies, such as Afghanistan and Somalia. According to Lindley (2009; 2010), the evolution of informal remittance networks in war-ravaged Somali communities demonstrates that conflict can encourage commercially viable adaptations that build on existing social institutions in the absence of effective state administration. Somali money transfer infrastructure that has evolved from local *xawilaad*<sup>3</sup> institutions has become a highly sophisticated and expansive network. The activities of the local *xawilaad* operators began expanding during the civil war of the 1980s and 1990s with the spread of high frequency radios. The agents joined into larger networks and gradually formed centralized businesses—including Dahabsiil and Amal that are currently among the largest Somali money transmitters (Lindley 2009, 522–524).

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3 Local term for Arabic *hawala*.

Customary law (*xeer*) and other traditional institutions still remain central in regulating transactions (526). Clan-based networks and customary authority are widely drawn upon when recruiting collaborators for money transfer operators. Both traditional and contemporary solidarities are put into use when building local money transfer networks, restructuring political alliances, and creating new opportunities for local entrepreneurs. Lindley argues that the collapse of state institutions resulting from the prolonged civil conflict has paved the way to “new forms of socio-political authority” that contributed to the viability of the remittance transfer sector in Somalia. Another factor that has facilitated the rise of the most advanced money transfer system on the African continent is Somalia’s highly advanced telecommunications infrastructure. After a complete devastation of the fixed line system in the early 1990s, Somalia “leapfrogged into wireless and other advanced technologies” (Feldman 2007, 571). This was done with the help of satellite communication devices of the VSAT<sup>4</sup> type that provided the flexibility and cost-effectiveness needed for functioning in the war-torn environment. The rapid development of the country-wide system with a high degree of interconnectivity became possible due to grassroots cooperation among a multitude of Somali telecommunication operators. With some facilitation from the United Nations Development Program (UNDP) and the International Telecommunications Union (ITU), the Somali Telecom Association was formed in 1998 (568). The vital importance of remittance transfers for local livelihoods, in turn, became a powerful incentive for the private sector operators to develop the telecommunications sector—leading to a somewhat paradoxical situation where “in an unregulated society, such as exists in Somalia, a form of self-government, essentially self-regulation, for an individual sector can arise to provide optimal benefits” (Feldman 2007, 568). Because of the efficient and well-coordinated money transfer infrastructure, Somalia was also able to make timely adjustments after the assets of its main remittance company, Al-Barakaat, were frozen due to terrorist suspicions

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**Lindley argues that the collapse of state institutions resulting from the prolonged civil conflict has paved the way to “new forms of socio-political authority” that contributed to the viability of the remittance transfer sector in Somalia.**

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in 2001. Only months later, local transfer networks were successfully reconfigured and other money transfer companies came forward to replace Al-Barakaat—most of them complying with the regula-

tions of the international Financial Action Task Force and cooperating in the framework of the Somali Financial Services Association, overseen by the UNDP

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4 Very small aperture terminal.

(Fagen and Bump 2006). Somali money transfer companies have also helped forge ties between different development actors and facilitate diversified services involving deposit, microfinance, and investment functions (Lindley 2009, 537).

However, the prolonged lack of state administration has had some negative effects on the Somali remittance environment. The lack of a central bank coordinating the country's financial affairs has left it up to the remittance agents to ensure the security of their transactions in a context of profound instability. Insufficient national regulatory institutions to unify operational and reporting mechanisms of remittance transfers in an environment of growing international demands for greater transparency poses a disadvantage for Somali financial networks (Omer and El Koury 2005). On the whole, however, the rapid development of Somali remittance infrastructure demonstrates the relevance of local initiative in conflict-affected situations: "On the surface, the landscape is one of poverty and anarchy, but underneath, it is the true entrepreneurial spirit and unification of private industry that prevails" (238).

Informal value transfer systems like *hawala* are often used by international development agencies and non-governmental organizations (NGOs) to transfer funds for post-conflict reconstruction efforts. As formal financial infrastructure often has been severely damaged, informal transfer options remain the only means to transport large amounts of cash among the regions in need (Hariharan 2012, 290). In Afghanistan, *hawala* has been used by international development actors for efficient and reliable transportation of funds across the country since the fall of the Taliban (Maimbo 2003). Such transfers have amounted to several hundreds of millions of US dollars in reconstruction and relief funding, and tens of thousands of dollars are transmitted daily by various NGOs within the country (4). The process is fast, with international transfers taking about 6–12 hours, as well as cost-effective, with transfer fees at around 1–2 percent; the international NGOs interviewed reported "general satisfaction with the delivery of funds" (5). The local *hawaladars* enable local NGOs necessary liquidity and develop checks and other financial products to assist NGOs in their transactions with suppliers and shopkeepers in the area (13).

## **THE HYBRID NATURE OF MODERN HAWALA**

The complex remittance environments described above also highlight certain arbitrariness in the formal/informal dichotomy. Despite a chronic lack of centralized state administration, Somali remittance networks are more centralized and transnationally regulated than *hawala* arrangements in many other parts of

the world (Lindley 2009, 531). Much of their resilience and commercial viability derives from their “hybrid” organizational character, which consists of “a central hierarchical hub” that draws upon an extensive and fragmented agent network (535). Even outside Somalia, a distinguishing feature of the modern-day *hawala* is its integral connectedness to the formal financial sector. *Hawala* operators frequently employ formal banking services like savings accounts for depositing and consolidating funds: “A majority of international *hawaladars* hold at least one or two accounts with formal financial institutions” (Hariharan 2012, 283). *Hawala* transfers are also heavily dependent on modern information and communication technologies—including fax, email, telephone, and radio communication and various combined financial service platforms. At the same time, people often resort to informal financial institutions like rotating savings groups to mobilize funds for *hawala* transfers (see also Ballard 2003). Informal and formal elements thus intersect and overlap in remittance transfer systems, resulting in increasingly complex “hybrid” arrangements on multiple scales.

Because of the growing ambiguities between formal and informal spheres in remittance transfers, Pieke, Van Hear, and Lindley (2007) have suggested that the term “informal remittance transfers” should be seen as a residual category, defined by elements that it fails to possess according to certain regulatory concerns. The precise form of these concerns cannot be easily determined because of the variety of criteria considered relevant on each occasion, which may include “financial regulation, registration, licensing or supervision, law enforcement, or requirements to keep records, report transactions, or confirm to certain accounting conventions” (359). As the legal and regulatory environments as well as the organizational systems of “informal” transfers like *hawala* do not remain constant, it is difficult to define the attributes of that informality. That poses particular challenges to the efforts to regulate *hawala*-like remittance systems.

## **CONCERNS OF ABUSE AND REGULATORY ISSUES**

The high degree of fragmentation and anonymity of *hawala* transfers renders them vulnerable to criminal and terrorist activities. A lack of documentation about *hawala* transfers is exacerbated by the relative isolation of individual transactions within the *hawala* chain. The fragmented *hawala* channels can be seen as “labyrinths replete with pseudonyms, middlemen and dead ends” (Looney 2003, 166) and the governments often lack the capacity to monitor the dispersed transactions. As *hawala* transfers often form part of other commercial transactions, the actually circulating values can be easily obscured. The settlement end

of the *hawala* transaction is the most likely area for criminal abuse considering the multiplicity of possible means for balancing accounts: “Apart from compensatory payments, other ways of balancing accounts include formal transfers (check, wire, bank-to-bank, etc.), the use of couriers and payments in kind, as well as through commercial transactions, falsified invoices, and third parties. Not being subject to the same rules as formal institutions and operating frequently in parallel economies through not always known third parties make the whole process susceptible to illegal uses” (Passas 2008, 409). The system can therefore be used for various criminal activities including tax evasion, smuggling, terrorist funding, and capital flight (Maimbo and Passas 2005, 214).

The terrorist attacks of September 2001 further highlighted the need for better regulation and supervision of informal funds transfer systems. The Financial Action Task Force<sup>5</sup> (FATF) of the Organization for Economic Cooperation and Development (OECD) addressed informal remittance systems in one of its eight Special Recommendations on Terrorist Financing of 2001, calling upon states to require licensing or registering informal remittance businesses and applying certain “know your customer” and “control your business” strategies (Maimbo 2003; Lindley 2009). The Best Practices Paper<sup>6</sup> that FATF issued in 2003 addressed the potential for financial abuse in informal remittance systems in greater detail. It offered a nuanced approach to informal “money and value transfer services” that pointed out the need to take into account cultural and regional characteristics, calling for a “functional, rather than a legalistic, definition” of informal remittance systems (Maimbo and Passas 2005, 222). In an attempt to develop an international regulatory framework, recommendations were made to require registration and encourage licensing of the informal operators<sup>7</sup>, and transactions reporting requirements were called for in line with other financial institutions (Maimbo and Passas 2005).

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5 The Financial Action Task Force, founded in 1989, is an intergovernmental organization aimed at developing policies to combat money laundering and financing terrorism.

6 FATF Combating the Abuse of Alternative Remittance Systems: International Best Practices.

7 “Licensing means a requirement to obtain permission from a designated competent authority in order to operate a money/value transfer service legally. *Registration* (...) means a requirement to register with or declare to a designated competent authority the existence of a money/value transfer service in order for the business to operate legally.” (From The Interpretative Note to Special Recommendation VI, FATF, cited in Shah 2007, 209). According to Shah, “Licensing is the optimal method of assuring persons of dubious background and intentions are not allowed legal operating status, while the more minimalist registration approach at least allows regulatory and law enforcement agencies a straightforward way of contacting IFTS operators for both specific investigations and research opportunities.” (Ibid.)



A problematic issue for the regulators has been developing a comprehensive definition of informal remittance delivery systems that would take into account their operational peculiarities. The term used initially by FATF was “alternative remittance systems,”<sup>8</sup> defined as “financial services, traditionally operating outside the regulated financial sector, where value or funds are moved from one geographic location to another” (Maimbo and Passas 2005, 213). However, Passas (1999) and Maimbo and Passas (2005) have criticized this term as misleading and ethnocentric as it implies “the existence of other mainstream or conventional remittance systems,” which is not the case for many parts of the world; the term “informal value transfer systems” was subsequently developed, indicating the transactions occur outside conventionally regulated financial channels (Maimbo and Passas 2005).<sup>9</sup> A more recent definition used by FATF is “money or value transfer service” or MVTS, defined as “financial service that accepts cash, cheques, other monetary instruments or other stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, message, transfer or through a clearing network to which the money/value transfer service belongs” (Shah 2007, 206). Shah credits the FATF definition of MVTS for its attention to both the actors as well as the nature of the activity involved. However, he contends that although the FATF regulatory framework addresses many problematic aspects of informal value transfer systems, it fails to adequately address the settlement side of the transfer processes, and by extension, provides an insufficient framework for including the more recent complex permutations of the informal systems (217–218).<sup>10</sup> By not considering the peculiarities of existing informal remittance arrangements, the suggested recommendations may result at times in “an ill-fitting transposition of formal financial sector regulations onto the informal sector” (218).

For these reasons, compliance reinforcement of FATF anti-money laundering regulations remains problematic in many parts of the world: “Attempts to formal-

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8 The definition originates from the Asia/Pacific Group on Money Laundering.

9 It is sometimes suggested to separate IVTS further into Informal Fund Transfer Systems and Informal Value Transfer Mechanisms, which incorporates the differentiation between “funds” (value present in physical currency) and “value” (items that hold material worth), but also refers to the processes that constitute the transfer (Shah 2007; Passas 1999, 2003). The differentiation is founded on the dimension of legality or illegality, with IFTS as “largely legitimate operations with legitimate clients,” and IVTM as methods to transfer money illegally, either via “formal financial system infrastructure without detection” or by some other means (Shah 2007, 196). In the latter, most funds transferred are not constituted by migrant remittances, and they involve “much more complicated and higher value transfers,” but are often part of business transactions that are seemingly legitimate (Ibid.).

10 Shah points out that the international anti-money laundering recommendations are addressed mainly at IFTS and not IVTM—see footnote 9.

ize the informal equal efforts to alter the age-old traditional networks, which successfully resisted prohibitions and authoritarian regimes in the past" (Passas 2008, 411). Passas suggests that compliance and transparency are more likely to occur if policymaking processes include the input of local *hawaladars*. As the local appeal of the *hawala* system is central to its resilience, "there must be incentives in place for *hawala* dealers to register willingly with various national and international bodies" (Razavy 2005, 291). It is also important to consider competing legal paradigms and strive for their harmonization at local, national, and transnational levels (Razavy 2005; Passas 2008).

There is a growing recognition of the need for a contextual approach to the licensing and registration requirements of informal value transfer systems. For countries where *hawala*-like networks exist alongside a functional formal financial sector, registration and record-keeping requirements have been suggested along the lines of FATF recommendations. In conflict-affected or post-conflict situations, formal banking systems may have broken down and supervisory capacity of the state diminished. A nuanced and gradual approach to regulating the informal remittance sector has been recommended for such environments (El Qorchi, Maimbo, and Wilson 2003; Passas 2005, 221). In post-conflict Afghanistan, for example, where the capacity of the Central Bank to exercise formal regulations is extremely limited, the options for local *hawaladars* include self-regulation through a dealers association and existing business codes, or application of special regulations through some degree of registration (although not licensing) and some form of record-keeping and customer identification (Maimbo 2003, 17).

Conflict-related insecurity sometimes also can result in an increased local scrutiny of remittance agents and transactions and lead to a greater compliance with international regulatory requirements, as the case of Somalia demonstrates. Omer and El Koury (2005) describe how post-conflict insecurity in Somalia led to thorough screening and documentation practices of the staff and customers of local remittance agencies. Various types of written identifications, collaterals, and community references were drawn upon by the Somali remittance entrepreneurs: "Their enforced innovativeness in protecting themselves against insecurity has unknowingly brought them into compliance with the global sphere of financial regulations, particularly concerning the 'know your customer' and 'know your processes' methods of anti-money laundering and terrorist financing regulations" (232). A flexible and locale-specific approach is therefore required when implementing anti-money laundering regulations in local remittance networks.

Despite the stringent regulatory environment, informal remittances remain a vital economic resource in many areas. The main advantages of informal value transfers as compared to more formal mechanisms like licensed money transfer operators (MTOs), banks, and post offices include cheaper delivery services and greater geographical reach, particularly in remote areas and among unbanked populations. Informal remittance transfer fees were recently estimated in the two to five percent range (Slota 2012). Maimbo (2003) has reported six to 12 hours as an average delivery time for *hawala* remittances in Afghanistan; various other sources suggest 24 to 48 hours as a maximum delivery time for international transfers in remote rural areas. Because of its fragmented nature, the *hawala* network is capable of operating in environments with minimal physical or institutional infrastructure; it has flexibility and adaptability that are indispensable in settings devastated by violent

conflict or natural disasters. Minimal documentary procedures and identification requirements safeguard the privacy of transfers and make the service accessible to populations in

poor and marginal areas (Hariharan 2012, 296–297). The relative anonymity of *hawala* transactions can minimize immigration concerns among its customers (Slota 2012), particularly relevant among frequently under-documented refugee populations. *Hawala's* constitution of segmented chains of relational contracts highlights its personalized and socially embedded dimensions, managing risk and providing a strong economic incentive to reciprocate (Schramm and Taube 2003; Hariharan 2012). The security of *hawala* is thus enhanced by its reliance on socially accepted mechanisms of solidarity that effectively permeate the networks of transnational diaspora.

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**The main advantages of informal value transfers as compared to more formal mechanisms like licensed money transfer operators (MTOs), banks, and post offices include cheaper delivery services and greater geographical reach, particularly in remote areas and among unbanked populations.**

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## **SEEKING HARMONY BETWEEN THE FORMAL AND INFORMAL: INTEGRATING FINANCIAL INSTITUTIONS FOR POST-CONFLICT DEVELOPMENT**

Some degree of regulation of informal remittance transfers is needed to counteract the threats of organized crime and terrorism. Unrecorded remittance flows can undermine national economies and contribute to macroeconomic instability (Slota 2012; El Qorchi, Maimbo, and Wilson 2003). At the same time, remittances flowing through unofficial channels can be indispensable for post-conflict recon-

struction and development. Means should be sought to harmonize and integrate formal and informal remittance sectors without outlawing the latter or pushing it further underground.

Integration of these two sectors is particularly relevant for creating sustainable financial solutions in post-conflict situations where central banking and formal infrastructure may be lacking. Solid financial sector development will require innovative approaches to facilitate private sector investment, indispensable for post-conflict rehabilitation and economic development (see Maimbo 2007). Post-conflict rehabilitation efforts should pay more attention to actual financial arrangements instead of adopting a top-down approach to institutional development: there is a need to “focus on financial products and services instead of the bricks and mortar of institutions” (27). Maimbo points out that conflict-affected countries may not have formal institutions such as active credit or property registries, national payments systems, and government supervised financial sector regulations, but they may have well-functioning social practices to facilitate financial interactions and established networks of financial intermediaries (27–28). The challenge is to build on such existing arrangements and strengthen the financial sector from within. Instead of entering a post-conflict country with pre-set institutional repertoires and transactional procedures, Hariharan (2012) suggests exploring the possibilities of adopting some “*Hawala*-inspired techniques” to make formal sector remittance institutions more accessible to local populations (302). That includes some form of reliance on existing social reciprocities and relational contracts: “Requiring credit references, a credit history, and documentation from individuals surviving a devastating conflict is both unrealistic and highly insensitive to those survivors’ plight” (305). Instead of outlawing or ignoring informal funds transfer systems, possibilities should be sought for broadly integrating IFTS into the formal economy and enabling them access to national payments systems, electronic retail facilities, and other similar resources (306).

Looking for the opportunities of collaboration and synthesis between the formal sector and already existing local financial arrangements also presumes a broader view of remittance institutions. “Non-traditional” remittance actors like microfinance institutions, savings and credit cooperatives, and mobile money transfer operators may already have an efficient network of agents in place (Slota 2012; Pieke, Van Hear, and Lindley 2007). Drawing upon existing institutional frameworks rather than building formal financial institutions from scratch can be particularly helpful in post-conflict situations. Thus, a broader view of institutional evolution is needed that takes into account a wider range of actors and innovative

possibilities of collaboration. Pieke, Van Hear, and Lindley (2007) have suggested that the evolution of remittance institutions should be seen as a gradual and organic process that can occur in stages: initially, remittance institutions may evolve from other social institutions and practices, and the resulting “specialized” remittance institutions may in turn give rise to other types of financial services—including savings/credit, banking, investment, and insurance (362). As the case studies examined in this section testify, local creative combinations of existing remittance institutions and diverse infrastructural opportunities can harness adaptive potentials even in the contexts of widespread devastation. The cases of post-conflict Afghanistan and Somalia demonstrate that local innovative solutions can produce novel opportunities for formal sector engagement and result in viable hybrid arrangements. On a transnational level, the need is for a systematic engagement of the diasporas in reconfiguring international remittance networks and related banking services in culturally acceptable and productive ways. The formalization of remittance transfer systems should therefore be seen as a local and socially embedded process, and opportunities for further institutional development and diversification should be sought in collaborative efforts among a broader set of local and global actors.

## **FINDINGS AND RECOMMENDATIONS**

- Most conflict-induced remittances, while a crucial resource for post-conflict development, are transferred through informal channels. These are embedded in existing social institutions and networks of reciprocity.
- Contemporary informal remittance systems are part of increasingly complex global financial networks. Highly fragmented and anonymous, informal remittance transfers may contain potential for criminal abuse. Regulatory efforts should search for contextually differentiated and culturally sensitive approaches to local remittance institutions in post-conflict areas in collaboration with local remittance agents, customers, and diaspora representatives.
- Modern informal remittance transfers involve complex connections to formal sector institutions. Research is needed to better understand these mutually beneficial connections and the potential to leverage them for development.
- Conflict-induced remittance systems can be highly entrepreneurial, with local adaptations that foster linkages between financial institutions of different levels and degrees of formality. Instead of focusing on building up formal financial institutions in the contexts of post-conflict devastation, development

opportunities should focus on existing remittance institutions and diverse infrastructural opportunities.

- When developing post-conflict remittance transfers, collaboration should be explored among a wide range of existing institutions of financial inclusion, such as post offices, mobile banking platforms, microfinance institutions, credit unions and cooperative marketing associations, as well as local rotating savings associations, women's economic groups, farmers' associations and natural resource user groups, and umbrella organizations for local producers and entrepreneurs. A broader view of remittance institutions that bridge the formal and informal divide and enable productive partnerships should be encouraged.

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## 2. Dodd-Frank Act and Remittances to Post-Conflict Countries: The Law of Unintended Consequences Strikes Again

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act” or “Act”) was enacted in the United States in response to the financial crisis that began in 2007. There are many reasons that have been identified as a significant cause of the crisis,<sup>1</sup> and, in response, the Dodd-Frank Act mandates a wide array of changes in the regulation of financial institutions and financial products. The Act is an omnibus legislative document that contains hundreds of sections and more than 800 pages of text. Many of those sections relate to consumer protection. As such, the Act established a new agency, the Consumer Financial Protection Bureau (CFPB), which received almost all of the consumer protection powers of the federal banking agencies.<sup>2</sup>

Among them is the power to implement and enforce most sections of the Electronic Funds Transfer Act (EFTA).<sup>3</sup> In addition, section 1073 of the Dodd-Frank Act amended the EFTA to provide a new regulatory framework for remittance transfers made from the United States to a foreign country.<sup>4</sup> The regulatory framework includes detailed disclosure requirements and error resolution procedures, and establishes significant civil liability (both fines and potential class action suits) for violation of these requirements.<sup>5</sup>

This section will discuss the regulatory implementation of section 1073, and focus on the impact this new regulatory regime will have on remittance transfers to post-conflict countries. The section concludes that the proposed regulatory

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1 See, e.g., Financial Crisis Inquiry Commission, *Financial Crisis Inquiry Report* (Jan. 2011); Gary Gorton, *Questions and Answers about the Financial Crisis Prepared for the U.S. Financial Crisis Inquiry Commission* (Feb. 20, 2010), available at <http://tinyurl.com/financial-inquiry>.

2 12 U.S.C. §§ 5581-5583.

3 Dodd-Frank Act § 1084.

4 15 U.S.C. § 1693o-1.

5 *Id.*



treatment may have the unintended consequence of impeding the use of regulated remittance transfer providers for sending funds to these countries.

## **THE IMPORTANCE OF REMITTANCES FOR POST-CONFLICT COUNTRIES**

### **Post-Conflict Countries**

A post-conflict country is typically defined as a nation that is emerging from a severe conflict. In these countries, open warfare has ended, but a potential for violence remains.<sup>6</sup> Studies have shown that post-conflict situations are characterized by human loss, destruction of infrastructure and means of production, as well as adverse economic and political consequences.<sup>7</sup> The main goals of post-conflict transition and recovery are achieving peace, sustaining economic growth, and reducing poverty.<sup>8</sup> The establishment of sustainable institutions is often the most important step in achieving security and growth in post-conflict situations.<sup>9</sup>

In post-conflict situations, there is an absence of war, but not necessarily real peace. The end of fighting offers an opportunity to work towards lasting peace, but that requires the establishment of viable institutions, capable of sustaining lasting security for the entire population.<sup>10</sup> Extended conflict leads to the collapse of the systems and institutions that make a stable society function and these are the systems that need to be resurrected.<sup>11</sup> The instability common in post-conflict countries constrains investment.<sup>12</sup> The collapse in law and order is disruptive to political and economic governance, thereby increasing uncertainty and making contract enforcement difficult.<sup>13</sup> Dramatic changes in financial rules and practices may be common in these nations, financial infrastructure is damaged, and financial conduits may not function properly. Business norms may change dramatically due to changes in economic conditions or government

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6 Peter Wallensteen, *Understanding Conflict Resolution: War, Peace and the Global System* (SAGE Publications 2007).

7 Paul Collier, *Doing Well out of War* (The World Bank 1999).

8 U.S. Agency for International Development (USAID), *Understanding the Post-Conflict Country* at 3 (2009).

9 Lakhdar Brahimi, *State Building in Crisis and Post-Conflict Countries* at 3-4 (United Nations 2007).

10 *Id.*

11 *Id.*

12 Janvier Nkurunziza, *Civil War and Post-Conflict Reconstruction in Africa* at 23 (United Nations Conference on Trade and Development 2008).

13 *Id.*

leadership. Formal payments systems and financial intermediation may function poorly or not at all.<sup>14</sup>

### Role of Remittances in Post-Conflict Countries

Remittances are funds sent home by nationals living and working in other countries, usually to family members in the country of origin. In achieving stability and economic security, post-conflict nations rely heavily on these remittances.<sup>15</sup> The funds are widely distributed and flow to many areas that are neglected by other forms of aid.<sup>16</sup> Funds sent from abroad are generally spent on individual or household private needs, such as food and housing, and create ripple effects throughout the local economy.<sup>17</sup> Remittances help the national balance of payments, boost economic development, and improve the general standard of living.<sup>18</sup>

There is no question that remittances have become a critical source of foreign currency for many post-conflict nations. Countries in conflict generate significant diasporas, a portion

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of which prefers its new life to repatriation after the conflict but seeks to support relatives who remained behind.<sup>19</sup> As a result, in post-conflict areas, remittances have become a critical source of capital for development and stability.<sup>20</sup> In many post-conflict nations remittances exceed the total amount of official development assistance, and in about one-third of all developing countries, remittances

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14 Rob Mills and Qimiao Fan, *Investment Climate in Post Conflict Situations*, World Bank Policy Research Working Paper 4055 at 11 (2006).

15 Organization for Economic Cooperation and Development, *Conflict and Fragility, Fragile States Resource Flows and Trends*, 42 (2013).

16 Russell King and Julie Vullnetari, *Remittances, Return, Diaspora: Framing the Debate in the Context of Albania and Kosovo*, *Southeastern Europe and Black Sea Studies*, 9:4, 385–406, 390 (2009).

17 *Id.*

18 K. M. Abdul Azeed and M. Begum, *International Remittances: A Source of Development Finance*, 4 *International NGO Journal* 299, 301–04 (2009).

19 US Agency for International Development, *Understanding the Post-Conflict Country Analytical Template* at 34 (September 2009).

20 In 2010, formal remittance flows worldwide exceeded \$440 billion, with approximately \$330 billion sent to developing countries. This is three times the amount of official aid provided to these nations, and approximates the aggregate amount of foreign direct investment in these countries. The World Bank, *Migration and Remittances Fact Book 2011* (2nd Ed. 2011).

exceed all capital flows.<sup>21</sup> A recent World Bank study found that remittances “play a vital and life-sustaining role for millions of vulnerable people in poor countries, particularly in post-conflict countries and in situations where formal financial services and infrastructures are nonexistent.”<sup>22</sup>

In addition, remittances tend to be markedly more stable than other private capital flows, such as portfolio investments and bank credits.<sup>23</sup> The importance of remittances in helping post-conflict countries was emphasized in a report issued by the International Peace Academy, which stated:

Nearly all the countries in the conflict, war-to-peace transition, and crisis categories are highly dependent on remittances. The slow recovery of livelihoods and persistent violence or repression ensure high levels of migration and the need for remittances in such countries for several years after conflict and crises have ended. By all accounts, migrant remittances reduce poverty in important ways in developing countries. Research shows that migrants transfer funds and invest in their countries of origin at times when international investment has all but disappeared. By serving these purposes in countries emerging from or still experiencing conflicts . . . remittances can be seen as a *sine qua non* for peace and rebuilding.<sup>24</sup>

### Impact of Regulation

Studies indicate that a significant portion of remittance transfers flow through unregulated channels and the use of such informal channels hampers efforts to prevent funds from flowing to entities that engage in criminal or terrorist activities.<sup>25</sup> The preference among remitters for informal transfer mechanisms partly reflects low financial literacy, as well as widespread distrust of government

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21 *Id.* at 1758.

22 M. Maimbo and D. Ratha, *Remittances: Development Impact and Future Prospects* at 13 (World Bank 2005).

23 Historically, remittances have been stable and even countercyclical, tending to rise during times of financial crisis and natural disasters because migrants living abroad send more money to help their families back in places of origin. United Nations Development Program, *Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty* at 129 (2011), available at <http://tinyurl.com/UNDP-MDG-Progress>.

24 Patricia Weiss Fagen and Micah N. Bump, *Remittances in Conflict and Crises: How Remittances Sustain Livelihoods in War, Crisis and Transitions to Peace*, International Peace Academy and Georgetown University at i (2005) (hereinafter “Fagen and Bump”).

25 That unregulated transfer systems are open to abuse—ranging from money laundering to support for terrorist activity—is well documented. *Id.* at 11.

and financial institutions.<sup>26</sup> Resorting to informal channels also results from the deterrent effect of what is viewed by the immigrant community as the “intimidating regulatory apparatus” erected to staunch money laundering and terrorist financing.<sup>27</sup>

Studies have indicated that the remittances most adversely affected by regulatory control are those transferring funds to countries where governments are weak, institutions are not reliable, and criminal activity is high.<sup>28</sup> These are the characteristics of many post-conflict nations. As a result, a substantial number of migrants who consider supporting their families to be an urgent commitment do not use regulated remittance services.<sup>29</sup> The unintended consequences of the regulatory scheme in the U.S. was noted in a 2005 study by the International Peace Academy:

The regulatory system in place—especially in the United States following the Patriot Act of 2001—was intended to prevent abuses. It may well be serving this purpose. . . but the cost has been high. Indeed, burdensome regulations challenge the ability of legitimate institutions and businesses to process money lawfully. The regulations impose stiff economic and bureaucratic burdens. . . The use and, at times, abuse of regulations has led to blacklisting remittance transfer agencies on the basis of perceived irregularities or minor infractions. The system put in place to target criminal elements has resulted instead in a system where the small operations most likely to serve particularly difficult areas are at a decided disadvantage.<sup>30</sup>

While these studies concerned regulatory controls designed primarily to prevent money laundering and to restrict the flow of funds to criminal and terrorist organizations, some of the same unintended effects may be seen with respect to

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26 S. Brown, *Can Remittances Spur Development? A Critical Survey*, 8 *International Studies Review* 55, 56 (2006).

27 *Id.*; A. Catalina, C. Bansak, and S. Pozo, *On the Remitting Patterns of Immigrants: Evidence from Mexican Survey Data*. Paper presented at the Payments in the Americas Conference. Federal Reserve Bank of Atlanta, October 7–8 (2004).

28 Fagen & Bump, *supra* note 22, at 9. A recent World Bank report noted “scant attention” paid to the impact of regulation on the flows of funds to poor and post-conflict nations. The report suggested that “the effects of policies and regulations on the availability of financial services and the range of products available and attractive to a low-income clientele requires more attention and, in some cases, reduced regulatory burdens to make them viable.” *The World Bank, Remittances: Development Impact and Future Prospects* 71 (Samuel M. Maimbo ed., Dilip Ratha ed., 2005).

29 Fagen & Bump, *supra* note 22, at 10.

30 Fagen & Bump, *supra* note 22, at 11.

the new consumer protection regulations mandated by section 1073 of the Dodd-Frank Act.

## THE DODD-FRANK ACT

### Legislative History

Section 1073 of the Dodd-Frank Act amended the EFTA by providing for detailed disclosures of numerous items in connection with a remittance transaction, establishing rules for correcting errors in the remittance process, and authorizing fines and civil actions for failure to comply with various mandates.<sup>31</sup>

The impetus for this part of the legislation may be traced to a 2005 report issued by the Appleseed Fund for Justice and Appleseed Foundation (“Appleseed”) calling for greater transparency in the remittance market.<sup>32</sup> The report found that the then-existing disclosures often made it hard for consumers to understand the full costs of sending a remittance before they engage in a transaction, including transaction fees and the exchange rate spread. In 2007, Appleseed testified before the House Committee on Financial Services that immigrants face enormous fluctuations and inconsistencies in pricing for remittances, even within the same company.<sup>33</sup> Appleseed recommended that the Federal Reserve Board should be granted rulemaking authority to delineate disclosure requirements, in consultation with consumer participants and representatives of the remittance industry. In 2009, Appleseed again testified before the House Financial Services Committee, but in this testimony, they recommended specific minimum disclosures.<sup>34</sup> In particular, Appleseed felt that baseline disclosures must include the fee for sending the remittance; the current exchange rate; the day and time the remittance will be available for pickup; and a sample of the remittance cost.<sup>35</sup> Appleseed also recommended that disclosure should occur visually before the transaction; that there should be a mechanism for error resolution; and that dis-

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31 15 U.S.C. § 1693o-1 (2012).

32 Ana Baddour & Sonja Danburg, *Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market* (Appleseed, 2005).

33 *Remittances: Access, Transparency, and Market Efficiency: A Progress Report: Hearing Before the Subcomm. on Domestic and Int'l Monetary Policy, Trade, and Tech. of the H. Comm. on Fin. Serv.*, 110th Cong. 3 (2007) (statement of Annette LoVoi, Field Director, Appleseed).

34 *Remittances: Regulation and Disclosure in a New Economic Environment: Hearing Before the Subcomm. on Fin. Inst. of the H. Comm. on Fin. Serv.*, 111th Cong. 8–9 (2009) (statement of Annette LoVoi, Field Director, Appleseed).

35 *Id.*

closures should be both in English and in the foreign language used in the three markets that the provider sends most of the remittances.<sup>36</sup>

### Legislative Text

Interestingly, various studies have found that increasing competition in the marketplace and other factors drove down the cost of remittance transfers, especially in the Latin American market, without the need for further regulation.<sup>37</sup> Nevertheless, Congress adopted a new and comprehensive remittance law in the Dodd-Frank Act, in order to “establish minimum protections for remittances sent by consumers in the United States to other countries.”<sup>38</sup> The legislation was based on the concern that senders of remittance transfers “face significant problems with their remittance transfers, including being overcharged or not having the funds reach intended recipients.”<sup>39</sup>

Pursuant to section 1073 of the Dodd-Frank Act, before making a remittance transfer to a foreign country, a remittance transfer provider<sup>40</sup> must disclose, at the time when the consumer requests a remittance transfer, but prior to making any payment:

- the amount of currency to be received by the recipient in the currency to be received;
- the amount of any fees charged by the transfer provider; and
- the exchange rate accurate to the one-hundredth of one percent.<sup>41</sup>

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36 *Id.*

37 See, e.g., Manuel Orozco, *International Flow of Remittances: Cost, Competition and Financial Access in Latin America and the Caribbean—Toward an Industry Scorecard 4* (2006), available at <http://tinyurl.com/Remittance-Flow> (Technology may also be a driving factor). See also The World Bank, *Global Economic Prospects: Economic Implications of Remittances and Migration* 137–38 (2006); Electronic Fund Transfers (Regulation E), 77 Fed. Reg. 6194, 6199 (Feb. 7, 2012) (to be codified at 12 CFR Part 1005). The U.S. General Accountability Office (GAO) found that the average cost of sending remittances from the United States to Latin America (particularly Mexico) declined from 12.5 percent to 7 percent from 2003 to 2005, and where comparable to the fees charged by banks, credit unions and the U.S. Postal Service. U.S. Gov’t Accountability Office, GAO-006-204, *International Remittances*, 3–4 (2005).

38 S. Rep. No. 111-176, 176 Sec. 1076 at 179176 (2010).

39 *Id.*

40 Defined to include any institution that makes remittance transfers to a foreign country in the regular course of business. The CFPB regulation states that an institution is presumed not to meet this standard if it made less than 100 transfers in the previous year, and continues to make less than 100 transfers in the current year.

41 15 U.S.C. § 1693o-1(a)(2).

Following the payment of money to the remittance transfer provider, the customer must obtain:

- a written receipt that includes all of the information disclosed before payment;
- the promised date of delivery;
- the name of the recipient;
- a statement about consumer rights for error resolution; and
- the state and federal agencies that regulate the provider.<sup>42</sup>

Disclosures must be in English and in each of the foreign languages principally used by the remittance transfer provider, or any of its agents, to advertise, solicit, or market, either orally or in writing, at that office.<sup>43</sup> Disclosures must be accurate when made, but the statute specifically provides that *insured depository institutions* may be allowed by the regulator to use reasonably accurate estimates for a limited period, ending on July 21, 2015, unless further extended by regulations.<sup>44</sup>

## REGULATORY IMPLEMENTATION

### Proposed and Final Rules Issued in 2012 and 2013

The original regulatory proposal to implement section 1073 was drafted by the Board of Governors of the Federal Reserve System, and published for comment by that agency on May 23, 2011.<sup>45</sup> On July 21, 2011, regulatory authority was transferred to the CFPB.<sup>46</sup> This agency issued a final regulation and a series of interpretations implementing section 1073 of the Dodd-Frank Act on February 7, 2012 (“February Final Rule”).<sup>47</sup> Prior to the rule going into effect, the Bureau

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42 *Id.*

43 15 U.S.C. § 1693o169301693o-1(b). (2012).

44 15 U.S.C. § 1693o-1(a)(4). (2012).

45 Electronic Fund Transfers, 76 Fed. Reg. 29902 (proposed May 23, 2011) (to be codified at 12 CFR Part 205).

46 Dodd-Frank Act, 12 U.S.C. § 5582 (authorized the Secretary of the Treasury to designate a specific date for the transfer of consumer protection functions from the Federal banking agencies to the CFPB.). The Secretary selected July 21, 2011 as the designated transfer date. 75 Fed. Reg. 57252-3533 (Sept. 20, 2010).

47 Electronic Fund Transfers (Regulation E) 77 Fed. Reg. at 6194; Electronic Fund Transfers (Regulation E) 77 Fed. Reg. 50244, 50282 (Aug. 20, 2012) (to be codified at 12 CFR Part 1005) (The CFPB issued a modification to the final rule, establishing that a company that made less than 100 remittance transfers in a year was not covered by the regulation. The August amendment also addressed compliance issues raised when remittance transfers are scheduled on a regular basis in advance).

issued a new proposed regulation December 31, 2012 that would make several significant changes in its original rule,<sup>48</sup> and at the same time announced that it was going to delay the effective date of the February Final Rule until after it considers the proposed amendments.<sup>49</sup> On May 22, 2013 the agency published in the Federal Register a new final regulation making three significant changes to the remittance regulation, and setting the effective date for regulatory compliance as October 28, 2013.<sup>50</sup>

The regulatory implementation creates a number of practical compliance problems for remittance transfer providers that could well result in increasing the cost of, or reducing the availability of, remittance services.<sup>51</sup> However, the adverse impact of these regulations on remittances to post-conflict countries will be much greater than for remittances sent to countries that have a stable and well-functioning government with a transparent financial regulatory structure.

The most significant problems include harsh penalties imposed on remittance companies for minor or inadvertent misstatements relating to the mandated disclosures; the imposition of liability for the acts of literally thousands of agents and representatives around the globe; and the costs imposed on remittance companies to correct mistakes even if the mistake was due to customer errors.<sup>52</sup> Even the CFPB has expressed concern that the new regulatory structure may result in companies exiting the field or reducing offerings by not sending remittances to areas where it would be more difficult to obtain the data that must be

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48 Electronic Fund Transfers (Regulation E), 77 Fed. Reg. 77188 (proposed Dec. 31, 2012) (to be codified at 12 CFR Part 1005).

49 Electronic Fund Transfers (Regulation E) Temporary Delay of Effective Date, 78 Fed. Reg. 6025 (Jan. 29, 2012).

50 Electronic Fund Transfers (Regulation E), 78 Fed. Reg. 30662 (May 22, 2013).

51 See, e.g., Joint Trade Association Comment Letter on the Proposed Amendments to Regulation E to Implement Section 1073 of the Dodd-Frank Act, Federal Reserve Board Doc. No. 1419, July 22, 2011. The CFPB acknowledged the possibility of adverse consequences of its regulation, including increased consumer costs and a decrease in the availability of remittance services at 77 Fed. Reg. 6201-02, 6208, 6218, 6220, 6224, 6279-82.

52 Any company that fails to comply with the EFTA or implementing regulations will face civil liability for actual damages and statutory damages of between \$100 and \$1,000 per violation. Class action liability for each violation is capped at \$500,000 or 1 percent of the net worth of the company, whichever is less. Attorney fees are also awarded in a successful claim. 15 U.S.C. §1693m. (2012). In addition, the CFPB may levy administrative civil money penalties. 15 U.S.C. § 1693o. (2012). Intentional violations are subject to criminal penalties including imprisonment for up to one year. 15 U.S.C. § 1693n.



disclosed.<sup>53</sup> Recently, the Federal Home Loan Bank of New York announced that in response to the new regulatory environment, it would no longer be providing remittance transfer services for its member institutions.<sup>54</sup>

With respect to remittance transfers to post-conflict nations, disclosures relating to third-party fees and exchange rates are especially troubling. The remainder of this section will explain the nature of the compliance problems caused by the regulation, recent efforts by the CFPB to address at least some of these concerns, and why much more needs to be done in response.

### **Disclosure of Third-Party Fees**

Pursuant to the regulation issued on February 7, 2012, remittance transfer companies must provide “accurate” disclosures before any money is exchanged (pre-payment disclosures) and a post-payment receipt that contains the pre-payment information, as well as additional disclosures. One of the more problematic requirements is to disclose all fees that may be charged by *third parties*, whether or not the remittance transfer provider has knowledge of such fees.<sup>55</sup> The 2012 final rule provides that *insured depository institutions* may make good-faith estimates of these fees if they lack actual knowledge (at least until July 21, 2015),<sup>56</sup> but the agency chose not to exercise its discretion to afford similar treatment to other remittance providers.<sup>57</sup> Thus, under the 2012 regulation, except for insured depository institutions, fees imposed by third parties must be itemized and accurately disclosed, even if the amount of the fee is not known by the remittance transfer provider when the transaction is initiated.

There are several reasons why remittance providers may not be able to comply with the disclosure requirement when transmitting funds to post-conflict countries. For example, remittance funds may be sent abroad either through a

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53 According to the CFPB, “some remittance transfer providers and industry associations have indicated that some providers are considering exiting the market or reducing their offerings, such as by not sending transfers to corridors where tax or fee information is particularly difficult to obtain, or by limiting the size or type of transfers sent in order to reduce any risk associated with mis-deposited transfers.” Electronic Fund Transfers (Regulation E), 77 Fed. Reg. at 77190.

54 Press Release, Federal Home Loan Bank of New York, *FHLBNY to Stop Processing International Wire Transfers at Year-End* (Nov. 30, 2012) available at <http://tinyurl.com/FHLBNY-press>.

55 12 CFR § 1005.31. (2011).

56 See 15 U.S.C. § 1693o1693016930-1(a)(4) (2010) (specifically authorizes the CFPB to allow insured depository institutions to use estimates for certain disclosures. . .).

57 The regulation tracks the statute in this case, since 15 U.S.C. § 1693o-1(a)(4) allows the CFPB to authorize estimates for insured depository institutions until July 21, 2015, unless further extended by the agency.

“closed network,” in which all of the intermediaries are agents of the remittance provider, or through an “open network,” such as through wire transfers.<sup>58</sup> An open network is composed of intermediary financial institutions.<sup>59</sup> The funds are transmitted from one financial institution to another as it winds its way to the recipient. The transaction may be routed differently, depending upon a number of factors beyond the control of the remittance transfer provider. Therefore, when funds are transmitted through an open network, the specific intermediary institutions and the exact amount of third party transaction fees cannot be determined beforehand.<sup>60</sup> When funds are transmitted to a post-conflict region, the remittance provider is less likely to have an office or other presence in the region. As a result, in many post-conflict areas, the open network framework will be an important transmission method, but the remittance provider will not be able to determine in advance the exact route that the funds will traverse nor the fees that will be imposed by third party intermediaries.

The problem is worse in post-conflict nations where the transparency and sufficiency of the financial regulatory structure may be lacking. Without a strong financial regulatory structure, entities receiving remittance payments for disbursement to the recipient may be able to establish fees that vary based on local economic conditions, relationships with the consumer, or other factors intrinsic to that particular entity. In some cultures, the exact fee that some third parties may charge could be subject to negotiation and bargaining between the consumer and the paying entity. The U.S. regulatory requirements for advance notice and/or publication of consumer fees is certainly not the norm in many

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58 Wire transfers are generally open network transactions that can reach virtually any bank worldwide through national payment systems that are connected through correspondent and other intermediary bank relationships. Providers of wire transfers usually charge up-front fees at the time of the transaction. In some cases, intermediary institutions impose additional fees (sometimes referred to as “lifting fees”) and recipient institutions may also charge fees for converting funds into local currency and/or depositing them into recipients’ accounts. See generally Electronic Fund Transfers (Regulation E), 77 Fed. Reg. 6194 - 6198 (in-depth discussion of open networks and wire transfers).

59 *Id.* at 6197.

60 In an open network, the sending institution may not have a contractual relationship with the receiving institution. Rather, in an open network transaction, the sending institution will send payment instructions and funds to a correspondent institution, which will then transmit the instructions and funds to the recipient institution directly or indirectly through other intermediary institutions. The identity of the intermediary institutions is not always known because more than one transfer route is possible. There is no global practice regarding communication between these various institutions regarding fees. *Id.*

parts of the post-conflict world, and the regulatory language does not take that into account.<sup>61</sup>

### **CFPB Response Relating to Third-Party Fees**

The 2013 regulation deals with only one aspect of the problems relating to third-party fees. It provides that such fees need not be disclosed, but only if they are imposed by the recipient's institution, and only if that institution is not considered to be an agent of the remittance transfer provider.<sup>62</sup> The recipient's institution must be a bank or similar financial institution, and the funds must be placed into an "asset account," such as a savings account or checking account. The requirement to disclose accurately all fees charged in other circumstances, for example, by intermediary institutions in an open network, was not changed. This will make the use of open networks by remittance transfer providers (other than depository institutions) difficult if not impossible.

#### *Definition of Agent*

One practical difficulty in applying even this limited exemption is that the term "agent" is not clearly defined. The term "agent" is defined, for other purposes, to mean "agent, authorized delegate, or person affiliated with a remittance transfer provider, as defined under State or other applicable law, when such agent, authorized delegate, or affiliate acts for that remittance transfer provider."<sup>63</sup> The 2013 amendment added, however, that this definition applies "except as otherwise provided."<sup>64</sup> The preamble explains that this "except as otherwise provided" clause was added to clarify that the term "agent" may be modified by the provisions in the rule regarding fee disclosures.<sup>65</sup> However, there is no specific reference to the definition of the term "agent" in these sections of the rule. Thus, it is not clear to what extent the existing definition of "agent" applies to the exemption from disclosure of the fees charged by the recipient's institution.

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61 See, e.g., B. Narteh, *Challenges of Marketing E-Banking Services in a Developing Country: The Case of Ghana*, 17 *J. of Internet Banking and Commerce* 10 (2012), <http://www.arraydev.com/commerce/jibc/>; L. Brix and K. McKee, *Consumer Protection Regulation in Low-Access Environments: Opportunities to Promote Responsible Finance*, CGAP Focus Note No. 60 (2010).

62 CFR §30(h)(2).

63 12 CFR §1005.30(a).

64 12 CFR §1005.30.

65 78 Fed. Reg. 30666.

Some guidance may be found in the preamble, which explains that the CFPB is “not adjusting the required disclosures for transfers that a recipient picks up at a *paying agent*.”<sup>66</sup> In other words, if the recipient’s institution is deemed to be a “paying agent” under applicable law, the fee must be disclosed even if the remittance transfer provider cannot determine the amount of the fee. The preamble notes that the recipient’s institution *may* also be an agent of the remittance transfer provider. The preamble states: “(I)f the designated recipient’s institution is an agent of the provider . . . the provider must disclose all fees imposed on the remittance transfer.”

The problem is made more complicated because there is no guidance regarding the applicable law to be used for determining if the recipient’s institution is an “agent” or “paying agent” of the remittance transfer company. The 2012 regulation states that when determining when an entity is an “agent” of a remittance provider, reference should be made to “State or other applicable law.”<sup>67</sup> This could refer to the State where the remittance transfer provider is located, the State where the transaction occurred, the home State of the consumer, or the law of the foreign country in which the remittance is sent. Each of these jurisdictions may have different rules for determining if the recipient’s institution is the “agent” or “paying agent” of the transfer provider. Thus, without further clarification, a remittance provider may face liability for not precisely disclosing the fees charged by the recipient’s non-affiliated depository institution that is deemed under applicable law (which is not defined) to be the “paying agent” of the remittance company.

### *Limitation to Depository Institutions*

The 2013 amendment may also be criticized for limiting the exemption to a recipient’s depository institution (e.g., a bank, savings association, or credit union). According to the World Bank, three-quarters of the world’s poor don’t have a bank account, not only because of poverty, but also because of the cost, travel distance, and amount of paperwork involved in opening an account.<sup>68</sup> In post-conflict nations the percent of the population with access to bank accounts is reduced further by the degradation of the country’s financial system that results from warfare, enhanced concerns about the security of the nation’s financial institutions, potential for sharp changes in exchange rates, and the fear of

66 78 Fed. Reg. 30673.

67 12 CFR § 1005.30(a).

68 See: <http://tinyurl.com/WB-Unbanked>.

government corruption. Thus, limiting the benefit of the exemption to transfers made into a recipient's "asset account" at a bank or similar depository institution is particularly disadvantageous to the remittance transfer providers seeking to provide services to post-conflict areas.

*Exclusion for Transfers to Credit Card, Prepaid Card, or a Virtual Account Held by an Internet-Based or Mobile Telephone Company*

The CFPB considered, but specifically declined, expanding the fee disclosure exemption to include transfers to credit cards, prepaid cards, and virtual accounts held by internet companies (e-wallets) and mobile phone companies (mobile phone payments). According to the Bureau, the systems for offering such transfers are not yet fully developed and currently most of these transfers are provided through systems in which remittance transfer providers have contractual arrangements with the recipient institutions, or the providers and the recipient institutions operate within one single network.<sup>69</sup> The Bureau concluded that, going forward, "arrangements will *likely* permit providers to exercise some control over, or learn about, fees charged by recipient institutions [emphasis added]."<sup>70</sup>

In the case of post-conflict nations, the failure to provide flexibility for transfer into such non-bank accounts, and in particular to mobile phones and other devices, is particularly problematic. In these nations the use of mobile banking devices has become a financial lifeline for much of the population. In 2009, the

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**Both the World Bank and the U.S. Agency for International Development support and encourage the use of mobile devices for money transfers. These agencies have found that mobile phones are widely available in developing nations and have the added benefit of allowing access to funds without the need to travel through dangerous countryside.**

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Global System for Mobile Communications Association reported more than four billion mobile phone subscriptions globally, with 80 percent of new connections in emerging markets and mostly by lower-income consumers.<sup>71</sup> Both the World Bank and the U.S. Agency for International Development support and encourage

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69 78 Fed. Reg. 30673.

70 *Id.*

71 USAID, *Enabling Mobile Money Interventions* at 2 (2010).

the use of mobile devices for money transfers.<sup>72</sup> These agencies have found that mobile phones are widely available in developing nations and have the added benefit of allowing access to funds without the need to travel through dangerous countryside.<sup>73</sup> The use of mobile phones for monetary transactions is expanding dramatically in post-conflict areas, and is supported by the U.S. government. For example, beginning in 2007 the USAID began to actively assist in the development of mobile banking in Afghanistan,<sup>74</sup> and the U.S. Department of Defense has invested \$2 million to establish mobile phone and other forms of electronic banking in Iraq.<sup>75</sup>

As the CFPB has stated, the use of e-wallets and mobile phones for monetary transactions is a developing model. It is not clear how these systems will ultimately develop, and it is not clear that every country will have a similar model. For example, in some countries the funds must pass through a domestic banking institution before they are transferred to a mobile device. In other models, the transfer can be made directly to the phone or internet provider. In some countries only one internet provider may be authorized, while in other nations there may be no restriction on the number of internet providers. However, under the CFPB regulation, the fees charged by mobile device providers to transfer funds into their customers' mobile accounts must be disclosed by the U.S. remittance transfer provider prior to the transaction, even if the U.S. remittance company has no knowledge of the fee, or no practical way of determining the fee in advance.

The World Bank has found that a major obstacle to the increased use of mobile phones and other forms of e-money is overly complex or stringent regulation.<sup>76</sup> The Consultative Group to Assist the Poor (CGAP), which is housed at the World Bank, recommends that policymakers and regulators should be careful not to unnecessarily inhibit the use of mobile phone for monetary transfers through regulatory overreach. Instead, the CGAP urges that rules should be implemented gradually and should be designed to evolve as the industry expands

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72 *Id.* at 5, noting that the use of mobile devices provides a safe and secure way of transferring funds without necessitating the transport of currency through the more dangerous countryside. The USAID has undertaken significant efforts to support mobile banking projects in many post-conflict areas, including Ethiopia, El Salvador, Nigeria, Afghanistan, and Malawi. The World Bank strongly supports the development of mobile money infrastructure, and recently issued a report highlighting the benefits of mobile money for developing countries. See, The World Bank, "Maximizing Mobile" at chapter 4 (2012).

73 *Id.*

74 USAID, *Enabling Mobile Money Interventions* at 19.

75 USAID, *Enabling Mobile Money Interventions* at 16 (2010).

76 *Id.* at page 10.

and matures. The ultimate goal should be to allow for oversight without stifling innovation.<sup>77</sup>

Nevertheless, the Bureau determined not to include transfers to credit cards, prepaid cards, mobile phones, and e-wallets because it believes that future development of the use of these instruments for money transfer “will likely permit providers to exercise some control over, or learn about, fees charged by recipient institutions.”<sup>78</sup> It is not clear how the Bureau came to this conclusion. There is considerable risk, however, that the Bureau’s regulation will lead to this result, even if other payment models would provide more competition, less costs for the recipient, or provide better ways to address the specific needs of consumers in post-conflict areas.

### *Open Networks and Intermediary Institution Fees*

The 2013 regulation does not ameliorate the problems identified in the original rule with respect to remittances carried over open networks, such as wire transfers or the Automated Clearinghouse System (ACH).<sup>79</sup> As explained previously, the exact amount of fees charged by open network intermediaries must be disclosed prior to and at the time a consumer initiates a remittance transfer. However, this information is unknowable under current systems until *after* the remittance transaction has been completed and the funds delivered. Remittances to post-conflict countries may rely on open networks since these companies are less able to move funds through closed networks in areas with a higher potential for violence, damaged transportation and other necessary infrastructure, high levels of poverty, and a lack of governmental regulatory oversight and police protection. If the use of open networks is restricted because the fees cannot be determined with certainty before the transaction is entered into, the result will be significantly less availability for regulated transfers, and consumers will be driven to use unregulated methods of remitting funds to these areas.

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77 Consultative Group to Assist the Poor. (January 2008). *Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance*. Focus Note #43. <http://tinyurl.com/CGAP-BranchlessBanking>.

78 78 Fed. Reg. 30673.

79 The ACH system is a funds transfer system that provides for the clearing and settlement of batched electronic transfers for participating depository institutions. In contrast, wires transfers are typically higher-dollar, individual (not batched) credit transactions that settle between depository institutions immediately. The originator of an ACH transfer generally authorizes its depository institution to send a payment instruction. The depository institution combines the payment instruction with payment instructions from its other customers and sends them to an ACH operator—the Federal Reserve Bank’s Fed ACH or The Clearing House’s Electronic Payments Network—for processing. Board of Governors of the Federal Reserve System, Report to Congress on the Use of Automated Clearing Systems for Remittance Transfers to Foreign Countries (July 4, 2011).

## Foreign Taxes

Under the 2012 regulation, remittance providers would have to disclose all taxes imposed on a remittance transfer, including taxes assessed by a local, state, provincial or regional foreign government.<sup>80</sup> In its 2013 rulemaking, the CFPB recognized that the determination of all foreign taxes, and keeping that information current, would be a difficult and costly undertaking. It therefore determined to amend the regulation to only require the disclosure of foreign taxes that are “collected on the remittance transfer by the provider.”<sup>81</sup>

The new regulatory language raises the question of whether a tax collected by a paying agent would be considered a tax collected by the remittance transfer provider. Generally, the actions of an agent are attributed to the principal, and thus a tax collected by the recipient’s institution could be viewed as a tax collected by the remittance transfer provider, if the recipient’s institution is determined to be the agent of the transfer provider. As discussed previously, the regulation does not provide a clear definition of the term “agent” or even the appropriate State or foreign law to consult. On the other hand, it is possible that the rule only intends to capture taxes collected directly by the remittance transfer provider and not by the provider’s agents. This is an area where additional guidance from the CFPB would be helpful.

## Exchange Rates

The remittance regulation requires a remittance transfer provider to disclose the exchange rate used by the provider, rounded consistently for each currency to no fewer than two decimal places and no more than four decimal places.<sup>82</sup> The 2013 regulation did not make any changes to this requirement.

While the exchange rate may be determined with certainty for certain products, this is not true in all cases. In post-conflict countries there will likely be far more volatility in the exchange rate than in more settled nations. To account for this risk, remittance companies may offer transfers with an exchange rate that is set when the recipient picks up the funds.<sup>83</sup> This would not be possible under the regulation, since it requires disclosure of the exchange rate when transfer is initiated.

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80 12 CFR § 1005.31.

81 78 Fed. Reg. 30674–77.

82 12 CFR § 1005.31(b)(1)(iv).

83 77 Fed. Reg. 6196 (Feb. 7, 2012) (so called “floating rate” transfers are described).



Further, remittance transfers to post-conflict nations may rely on open network systems. Determining the exchange rate in advance in open network transactions is not always possible.<sup>84</sup> A sending institution may exchange the currency at the time of transfer, using an exchange rate that the sending institution sets. In such cases, the principal amount will then be transferred in the foreign currency. Even if the funds are to be received in a foreign currency, however, the sending financial institution may not conduct the foreign exchange itself. Some financial institutions, particularly smaller institutions, may not participate in any foreign currency markets.<sup>85</sup> In other cases, the sending institution may choose not to trade an illiquid currency or a consumer may request that the transfer be sent in U.S. dollars. In these cases, the first cross-border intermediary institution in the recipient's country, or the recipient's institution, may set the exchange rate that applies to the transfer. Under these conditions, the remittance company may not know the exact exchange rate that will be applied until the transferred funds are received.

The potential for making an error of as little as one-hundredth of one percent when disclosing exchange rates could create significant risks to the remittance provider, especially when making a transfer to a post-conflict country. As a result, the cost of such transfers may increase, or the availability of such services through regulated companies may be inhibited.<sup>86</sup> And once again, post-conflict nations will typically have more volatile movements in exchange rates, and, thus, will be particularly disadvantaged by strict application of this disclosure requirement.

### **Date When Funds Will Be Available**

The receipt that must be given by the remittance transfer provider to the sender must include the date in the foreign country on which funds will be available to the designated recipient.<sup>87</sup> Due to the instability in post-conflict countries, remittance providers may not be able to provide a firm date by which the funds

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84 *Id.* At 6197.

85 See discussion of the mechanics of setting foreign exchange rates at 77 Fed. Reg. 6197.

86 *Supra* note 55 at 6220, a discussion of comments including a Federal Reserve Bank commenter, as well as industry commenters, arguing that requiring a fixed exchange rate for purposes of providing an exchange rate disclosure would result in less favorable exchange rates for senders. These commenters stated that if providers are required to fix the exchange rate, they will increase the spread they use in order to minimize the risks associated with rate volatility, so the cost of sending remittance transfers would increase for senders. A major remittance transfer provider warned the CFPB that it would stop providing service to approximately 10,000 foreign locations that currently offer only floating rates.

87 12 CFR 1005.31(b)(2).

will be available in all cases. CFPB guidance appears to recognize that fighting and other disruptions may delay the date on which funds will be ready for disbursement, and provides an exception for war or civil unrest, natural disaster, garnishment or attachment of the funds after the transfer is sent, and government actions or restrictions that could not have been *reasonably anticipated* by the remittance transfer provider, such as the imposition of foreign currency controls.<sup>88</sup> Many of the causes for delay in receiving funds when sent to a post-conflict region can be anticipated, but the length or severity of the disruption cannot be determined in advance. The CFPB was notified during the comment period that infrastructure deficiencies in some countries may make it impossible to determine the actual date on which funds will be available, but did not address this problem in its 2013 regulation.

### **Foreign Laws Prohibiting Compliance**

In its 2012 rule, the CFPB addressed the problem that the laws of certain foreign countries effectively prohibit compliance with its disclosure requirements.<sup>89</sup> As such, the CFPB created an exception that permits remittance transfer providers to use estimates, rather than exact numbers, if the provider cannot determine the exact amounts when disclosure is required because of a recipient nation's laws.<sup>90</sup> However, since this exception only applies when there is a national law that prevents compliance with the disclosures, it will not be of assistance when compliance is made impossible due to the local political, economic, regulatory, and social conditions, such as may exist in post-conflict nations.

### **CFPB Can Do More**

The CFPB has broad authority to create exceptions and limitations to the statutory provisions on remittance transfer providers. Section 904 of the EFTA governs all of the CFPB's rulemakings under the EFTA.<sup>91</sup> This section specifically states that the EFTA regulations may contain "such classifications, differentiations, or other provisions, and may provide for such adjustments and

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88 12 CFR §1005.33.

89 Electronic Fund Transfers (Regulation E) 77 Fed. Reg. 50244.

90 The August regulation also created an exception for international ACH transfers where the terms of the transfer have been negotiated by the United States Government and the recipient country's government, and where the exchange rate is set by the recipient country on the business day after the provider has sent the remittance transfer. The CFPB has published a list of the countries that qualify under the second exception. These countries are: Aruba, Brazil, China, Ethiopia, and Libya. See Consumer Financial Protection Bureau, Remittance Rule Safe Harbor Countries List (Sep. 26, 2012), available at <http://tinyurl.com/Safe-Harbor-List>.

91 15 U.S.C. § 1693b.

exemptions for any class of electronic fund transfers or *remittance transfers*, as in the judgment of the CFPB are necessary and proper to effectuate the EFTA.” Likewise, section 1022 of the Dodd-Frank Act, which is the CFPB’s general authority to issue regulations for federal consumer laws (including the EFTA), provides that the CFPB may conditionally or unconditionally exempt any class of covered persons, service providers, or consumer financial products from any rule.<sup>92</sup> Taken together, these statutory provisions leave no question that the CFPB has plenary authority to develop regulations that can create exemptions, differentiations, adjustments, and exceptions from the general requirements, and the CFPB can classify products as subject to or not subject to regulation, and otherwise tailor its regulations to achieve the purposes of the EFTA and the policy objectives of section 1022 of the Dodd-Frank Act. The legal authority of the CFPB to make adjustments to the disclosure rules to take into account the special circumstances of post-conflict nations is clear.

## CONCLUSION

The Dodd-Frank Act amendments to the Electronic Funds Transfer Act, and the implementing regulations issued by the CFPB, are intended to provide enhanced consumer protections to U.S. residents sending funds to foreign countries. The legislation and regulations were designed for a model in which the remittance transfers are subject to known rules and regulations, where all fees can be determined beforehand, and where exchange rates and timing can be predicted with near certainty. This model does not exist for remittances sent to many post-conflict countries. In these nations, the financial regulatory structure is weak, the political and legal infrastructure unstable, and corruption or fear of corruption prevalent. Under these circumstances, it is difficult, if not impossible, to know with certainty many of the facts that the regulation requires remittance providers to disclose accurately when the remittance is initiated. The CFPB has made attempts to deal with these issues, but much more needs to be done to assure that these new rules will not inhibit fund transfers to post-conflict regions.

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<sup>92</sup> 12 U.S.C. § 5512 (b)(3).

## Section II: Remittances in Post-Conflict Development: Country Studies

### 3. Migration, Remittances, Development, and the Civil Conflict in Sri Lanka

Suranjana Nabar-Bhaduri

This section looks at the role of remittances in Sri Lanka in the context of the civil war between Sri Lankan government forces and secessionist Tamil militants that lasted from 1983 to 2009. It examines the composition of migration (labor versus refugee) from Sri Lanka, the effects of the conflict on the pathways of migration and remittances, the channels used to remit money, and the use of remittances at the macro and micro levels. The section also discusses challenges that appear to be impeding remittances from addressing the broader issues of post-conflict development in Sri Lanka, and suggests policies that could help address these challenges. It uses the Sri Lankan case to point towards policies that could better enable remittances to address the development and reconstruction needs of post-conflict countries, and facilitate a more sustainable and inclusive path of long-run development.

The Sinhalese-speaking population has historically been Sri Lanka's largest ethnic group, and constituted 74.9 percent of Sri Lanka's population of about 20.2 million in 2012. The Sri Lankan Tamils have been the second major ethnic group, constituting 11.2 percent of the population in 2012 (2012 Sri Lanka Census of Population and Housing). During the British colonial rule, the disproportionate representation given to the minority Tamils in higher education and administration politicized ethnic identity in Sri Lanka. In the years following independence in 1948, Sri Lankan government policies on language, university admission rules, and access to public service employment came to favor the dominant Sinhalese population. Additionally, the government introduced settler programs for Sinhalese farmers in Tamil areas. These policies created a sense of alienation among Sri Lanka's minority ethnic groups. The rivalry between the Sinhalese and Sri Lankan Tamils became increasingly confrontational over time, and gave rise to the Tamil nationalist struggle. The attack by the Liberation Tigers of Tamil Eelam (LTTE) that killed 15 Sinhalese soldiers on July 23, 1983 resulted in an anti-Tamil pogrom, and marked the beginning of Sri Lanka's descent into a civil war between the Sri Lankan government and secessionist Tamil militants that lasted for 25 years.

## **POST-INDEPENDENCE MIGRATION FROM SRI LANKA: COMPOSITION AND THE EFFECTS OF THE CIVIL WAR**

Between 1948 and the early 1970s, Sri Lankan migrants primarily consisted of the Sinhalese and Tamil English-speaking educated and professional elite, who migrated mainly to the United Kingdom, and in smaller numbers to other Commonwealth countries in the West for higher education and employment. The 1970s witnessed a second wave of migration to the UK by young Tamil men, who found their education opportunities limited when the Sri Lankan government introduced quotas in the early 1970s to restrict Tamil admissions in Sri Lankan colleges and universities (Srisikandarajah 2002; Lindley and Van Hear 2007; and Orjuela 2008).

The late 1970s marked the beginning of a third wave of migration flows of mainly Sinhalese semi-skilled and unskilled labor to the Middle East in response to the rising demand for construction and other unskilled labor in the petroleum-producing countries. These flows were facilitated by the migration promotion policies of the Sri Lankan government from 1977 that saw labor migration as a means for absorbing surplus labor and easing foreign exchange shortages. Large-scale migration by Sri Lankan female domestic workers became another defining aspect of labor migration flows to the Middle East. The scale of these migration flows have caused the Middle East to emerge as the major destination of Sri Lankan labor migrants, and the main source of remittances to Sri Lanka. In 2010, 93 percent of labor migrants from Sri Lanka were employed in the Middle Eastern countries [Sri Lanka Bureau of Foreign Employment (SLBFE) Annual Report 2010]. Housemaids constituted 42.44 percent of total departures for foreign employment from Sri Lanka, and 86 percent of total female migrant workers from Sri Lanka. Thus, labor migrant flows from Sri Lanka have been dominated by unskilled labor, with housemaids and other unskilled labor constituting nearly 65 percent of labor migration flows in 2010 (SLBFE Annual Report 2010). Despite some marginal increments in the migration of skilled labor to Europe and the United States in more recent years, the skills profile of labor migrants from Sri Lanka remains predominantly unskilled (Arunatilake et al. 2010).

Finally, a fourth wave of migration occurred since the 1980s, especially following the onset of the civil war between secessionist Tamil militants and government forces in 1983. The majority of this migration consisted of refugee flows, mainly poor Tamils directly affected by the conflict from the rural areas of northeast

Sri Lanka. The conflict also resulted in the departure of many professionals and middle-class Tamils with the financial means and skills, and an increase in asylum claims by Tamil students and guest workers already living overseas. Estimates suggest that between 1983 and 2002, total net migration from Sri Lanka was between 1.5 to 2 million, or 10 percent of the country's total population of approximately 20 million (Sriskandarajah 2002).

### **GEOGRAPHICAL DISPERSION OF THE SRI LANKAN DIASPORA**

Besides the domestic and unskilled labor migrants in the Middle East, the Sinhalese diaspora, mainly consisting of middle-class professionals, is concentrated in the UK, Australia, Italy, and Canada. The UK served as the main destination of Tamil students and professionals immediately after independence and during the 1960s and 1970s. The UK also was the major destination for Tamil asylum-seekers until the mid-1980s, when the British government introduced restrictions to curb Tamil asylum migration. Consequently, more Tamil asylum-seekers began migrating to continental Europe and Canada. Indeed, the considerably higher acceptance rate for Tamil refugee claimants in Canada led Toronto to become an epicenter of the Tamil diaspora. The Tamil Sri Lankan diaspora is currently spread out in Canada, India, Australia, Germany, UK, Switzerland, France, and the Scandinavian countries. Over time, there has been some secondary migration of European Sri Lankan Tamils to the UK (Cheran 2003; Zunzer 2004; and Lindley and Van Hear 2007).

### **SRI LANKA'S EXTERNAL BALANCES AND REMITTANCES**

Remittances have increased significantly since the 1980s, reflecting the increase in migration flows to the Middle East, as well as migration flows forced by the civil war since 1983. Data from the World Development Indicators (WDI) database of the World Bank indicates that between 1983 and 2011, recorded private remittances increased from approximately \$295 million to approximately \$5 billion. Figure 1 (p. 62) shows

Sri Lanka's recorded private remittance receipts as a percentage of GDP since the late 1970s. Private remittances currently amount to eight percent of the country's

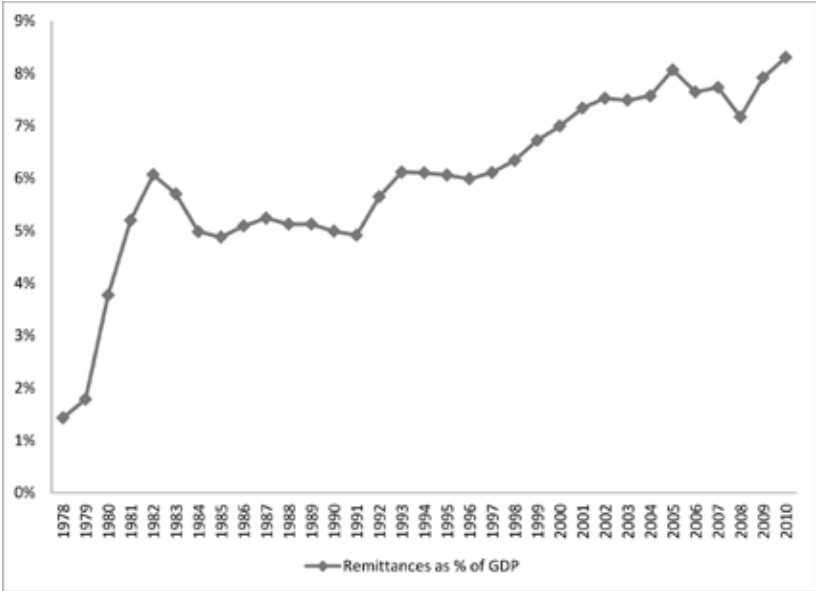
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**Private remittances currently amount to eight percent of the country's GDP. These magnitudes are likely to be greater if these figures included inflows through informal remittance channels and the value of in-kind remittances.**

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GDP. These magnitudes are likely to be greater if these figures included inflows through informal remittance channels and the value of in-kind remittances.

**Figure 1: Private Remittance Receipts in Sri Lanka (% GDP)**

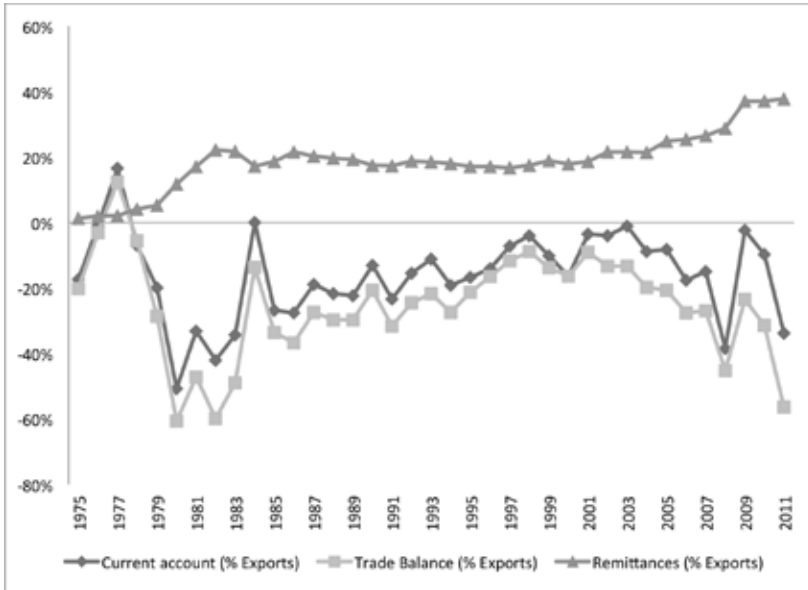


Source: Author's calculations using data from the WDI database of the World Bank (<http://databank.worldbank.org/ddp/>).

Figure 2 shows the evolution of the Sri Lankan current account,<sup>1</sup> trade balance, and remittances as a share of the exports of goods and services from 1975 onwards. As seen in Figure 2, Sri Lanka's trade balance has been in persistent deficits, amounting to nearly 60 percent of exports in 2011. Excluding 1977, the current account deficits have also been perennial, and stood at approximately 35 percent of exports in 2011.

<sup>1</sup> The part of the balance of payments recording a country's exports and imports of goods, services, and transfer payments.

**Figure 2: Current Account, Trade Balance, and Remittances (% Exports)**

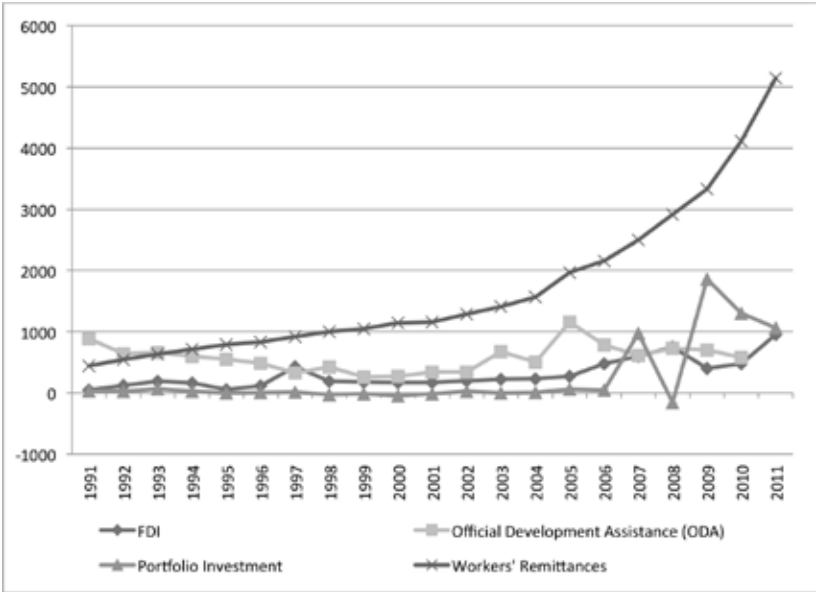


Source: Author's calculations using data from the WDI database of the World Bank.

The increase in private remittance inflows since the 1980s has meant that these inflows now account for a significant proportion of total export earnings, besides serving as a major source for financing Sri Lanka's trade deficits. Remittance inflows have also significantly surpassed foreign financial inflows under foreign direct investment (FDI), official development assistance (ODA), and portfolio investment (Figure 3, p. 64).



**Figure 3: Foreign Financial Inflows (Million US Dollars), 1991-2011**



Source: WDI database of the World Bank.

**SOURCES AND USES OF REMITTANCES**

The large-scale migration flows of semi-skilled and unskilled labor to the Middle East since the late 1970s has resulted in this region becoming a major source of remittance flows to Sri Lanka since the 1980s. North America and Europe were the two other main sources of remittances in the 1980s and early 1990s due to the large-scale migration of asylum-seekers to these two regions. Records show that 20.5 percent and 19.5 percent of recorded remittance inflows to Sri Lanka came from North America in 1987 and 1990, respectively, while the European Union (EU) area accounted for 16.1 and 16.5 percent of remittance inflows in these two years (Arunatilake et al. 2010).

While the share of recorded remittances from North America has subsequently declined, Europe has continued to remain a significant source of remittances, and is now the second major source after the Middle East. This shift towards Europe partly reflects the recent increase in migration flows by skilled Sri Lankan male workers to Europe due to visa for jobs programs in Europe that seek to address skilled labor shortages, and deliberate efforts by the Sri Lankan government to encourage skilled migration in areas such as health care (Arunatilake et al. 2010). In 2011, 58.9 percent of Sri Lanka’s total recorded remittance

flows came from migrant workers in the Middle East, 17.2 percent from the EU region, and 3 percent from North America (Central Bank of Sri Lanka Annual Report 2011).

As previously noted, at the macro level, remittances have been vital in enabling Sri Lanka to finance large trade deficits. At the micro level, given that war-torn areas in countries like Sri Lanka often lack well-developed political structures to channel sufficient investments, remittances provide a more reliable means relative to other forms of foreign financial flows to sustain and insure family members unable to migrate. By providing coping strategies for households affected and displaced by conflict, remittances can contribute to human security. Diaspora-funded reconstruction programs may also have an advantage in identifying and addressing local needs compared to donors from other cultures since diaspora members are more familiar with the ground realities in their home country. Studies suggest that remittances from migrants have provided additional financial resources and opportunities to vulnerable sections and families in both the Sinhalese and Tamil populations, who have been displaced and affected by the civil war; these groups have relied on remittances from migrant relatives for private consumption, rebuilding houses, restarting businesses, and also for migration (Van Hear 2003; Fagen and Bump 2006; and Orjuela 2008). For instance, remittances of one migrant from a Sri Lankan Tamil family displaced by the war partly funded the schooling and farming activities of other family members who could not migrate. In another Sri Lankan Muslim family that was displaced by an LTTE attack in 1990, the wife went to the Middle East to work as a housemaid. Her remittances helped the family to repay the loan taken to finance her departure, purchase some livestock, and also to invest in jewelry that could be sold in the future if the need for cash arose (Van Hear 2003).

Further studies suggest that remittances have enabled some migrant-sending households to spend more on food, health, and education in addition to enabling them to receive a higher level of income from property, physical and financial assets, compared to non-migrant households (Arunatilake et al. 2010). However, these positive benefits of remittances appear to be very limited and uneven in their impact. Using data from the 2003-04 Consumer Finance Survey and the Central Bank, Arunatilake et al. (2010) show that only approximately 10 percent of households in Sri Lanka have been the recipients of remittances, with the distribution of these remittances being concentrated among the richer and urban households.

## REMITTANCE CHANNELS

Sri Lanka has a fairly well-developed network of formal financial institutions to facilitate formal remittance flows. These include state and private commercial banks, the post office network, money transfer operators (MTOs), and micro-finance institutions. State commercial banks, such as the Bank of Ceylon (BOC) and People's Bank (PB), dominate the formal remittance business due to their extensive reach, with the BOC having approximately 303 branches, and the PB 648 branches across the country (Arunatilake et al. 2010). Banks offer retail products such as bank drafts, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) telex service, exchange houses, checking accounts, insurance products and securities to migrants (Lasagabaster, Maimbo, and Hulugalle 2005; and Arunatilake et al. 2010). Rupee accounts and the non-resident foreign currency (NRFC) accounts are the two most popular foreign currency accounts with remitters, since banks do not charge a commission for these accounts, and these accounts are tax-free. Banks also offer online money transfer systems such as e-Exchange, People's e-remittance, BOC e-cash, and Sampath e-remittance service (Arunatilake et al. 2010).

Operating through banks, MTOs like Western Union and MoneyGram have also played an important role in providing formal remittance services. Western Union is the leading MTO, having approximately 3,000 agent locations in Sri Lanka. More recently, an agreement between Western Union and Sri Lanka Post has further expanded the reach of Western Union, with its MTO services being made available in approximately 640 post offices. Sri Lanka Post also provides formal remittance services, such as money orders, but postal networks have been found to be less efficient in delivery and more time-consuming compared to banks and MTOs (Lasagabaster, Maimbo, and Hulugalle 2005; and Arunatilake et al. 2010). This may gradually change with the recent agreement between Sri Lanka Post and Western Union.

Nevertheless, informal remittance networks, particularly the *Hawala* system (called *Undiyal* by Sri Lankan Tamils), have grown in significance, and have been used by poorer labor migrants and the Tamil diaspora, particularly those from the conflict-affected north and eastern regions of Sri Lanka. While Puri and Ritzema (1999) estimated informal remittances to Sri Lanka to be approximately 13 percent of total remittances in the early 1980s, the World Bank (Lasagabaster, Maimbo, and Hulugalle 2005) estimated that these remittances were nearly 45 percent of total remittances in the mid-1990s. In the mid-2000s, they are esti-

### Informal Remittance Channels in Sri Lanka

According to research conducted by Cheran and Aiken (2005), there are a total of 100–150 *Undiyal* (the popular informal remittance channel in Sri Lanka) outlets in Toronto. These outlets are run by local entrepreneurs with diverse activity profiles. The transactions are fairly simple, cheap, and fast. The sender gives the cash to the *Undiyal* agent, who then fills out a form (including details of the sender and receiver and amount in both Canadian dollars and Sri Lankan rupees). A transaction fee of five or ten dollars for amounts below and above \$500, respectively, is charged, with a promise that the money will be delivered on the same day or next day. These agents have employees throughout the remote parts of the northeastern region, creating an effective delivery system. These informal agents route remittances through Hong Kong, Singapore, Jakarta, and Bangkok as these markets are less regulated. The foreign exchange black market in Colombo is used to convert the money into Sri Lankan rupees. These agents seem to bypass the formal banking services of Sri Lanka largely because of the lack of Sri Lankan bank branches abroad and regulatory restrictions at home. Consequently, informal remittance systems such as this have greater geographic reach than formal systems.

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Reference: R. Cheran and S. Aiken (2005). The impact of international informal banking on Canada: A case study of Tamil transnational money transfer networks (*undiyal*), Canada/Sri Lanka. A Working Paper, Spring 2005.

mated to have accounted for nearly 50 percent of total remittances to Sri Lanka (Foundation for Development Cooperation 2007). The preference for informal over formal remittance channels by poorer migrants may be attributed to factors such as lower service fees, lack of bureaucratic procedures relative to banks that limit the affordability of formal services, absence of documentation requirements, lack of door-to-door services in formal remittance channels, and the limited availability of formal financial services in areas of conflict (Lasagabaster, Maimbo, and Hulugalle 2005; Foundation for Development Cooperation 2007). Since the 2002 ceasefire, informal money networks have assumed an additional role as agents for relief, rehabilitation and reconstruction, by helping to channel remittances for rehabilitation and reconstruction activities in conflict-affected areas (Cheran and Aiken 2005).

## CHALLENGES AND POLICY SUGGESTIONS

It is important to emphasize that remittances by refugee migrants serve more as a means of sustenance during and following a conflict than as a means for changing lives and local communities (Lindley 2008). As previously discussed, remittances contribute to human security by providing coping strategies for households affected and displaced by conflict. Additionally, diaspora initiatives may help post-conflict rebuilding and populations affected by the war by providing additional financial resources for investments in health and education at the local level.

While remittances have indeed enabled some Sri Lankan families to cope with the effects of the war, challenges remain. The insecure situation in the conflict-affected region of northeast Sri Lanka has meant that the major part of diaspora remittances has been used for private consumption and war relief, leaving limited resources for investments in long-term development projects and quality employment generation. Furthermore, as discussed previously, the distribution of remittances has been uneven with urban and richer households being the main recipients of remittances. Distribution has also been uneven across rural households in the areas affected by the conflict (Orjuela 2008). Thus, the economic vulnerability of poor households with little or no access to remittances remains a major problem. Furthermore, the uneven distribution of remittances risks increasing and perpetuating income inequalities in Sri Lanka.

The predominance of unskilled and female domestic labor migration to the Middle East and the prominence of the Middle East in contributing to remittance inflows suggest that Sri Lanka has become increasingly dependent on exporting unskilled labor. Even assuming that the demand for such labor will continue to grow in the future, and ensure that remittances grow sufficiently relative to external financing needs, such a development strategy side-steps the broader issue of developing and enhancing the skills of the Sri Lankan population, generating quality employment and improving the living standards of the general population. Additionally, given that the EU region is the second major source of remittances, and recent Sri Lankan labor migrants to Europe have been skilled workers, this dependence on remittances to meet external financing needs also creates a *brain drain* concern.

Moreover, a major part of the remittances from the poorer labor and political migrants is through informal channels. Post-9/11, the activities of informal money transfer systems have come under closer scrutiny by international regula-

tory authorities, with some calls for the elimination of these channels. Since remittances are often the sole financial source that enables individuals affected by conflict to rebuild homes and meet their consumption requirements, there is a need for devising policies that would better regulate informal remittance channels, while taking into account people with genuine needs who use these systems.

Thus, more policy efforts need to be directed towards the reconstruction and development of the conflict-affected areas through direct collaborations with the diaspora to channel remittances into local development activities, and through infrastructural and rural development programs that include the direct participation of people living in these areas. Education policies, vocational training programs, and public investment also need to be directed towards developing skills, well-paid jobs, infrastructural development, and towards diversifying and raising the competitiveness of merchandise exports, which would reduce the dependence on remittances and the exports of unskilled labor to meet external financing needs.

Given that informal channels are often the only affordable means for refugee migrants to remit money, efforts need to be directed towards improving the transparency of these informal remittance channels, rather than abolishing them. One way of improving transparency could be to have rules requiring agents who transfer money through informal channels to be registered or licensed, and rules that require informal money transfer systems to maintain records and details of their customers and transactions. However, since anonymity is one of the main appealing aspects of informal channels for poorer migrants, such policy efforts are likely to meet resistance.

Addressing such resistance requires greater dialogue with leaders of diaspora communities in order to achieve a better understanding of the

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impacts of such policies and measures (Buencamino and Gorbunov 2002). Additionally, efforts should be directed towards more migrant-friendly policies and towards making the remittance systems in the formal banking channel more accessible to poor households (Cheran and Aiken 2005).

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## 4. The Role of Remittances in Post-Conflict Reconstruction: The Case of Liberia

Chantel F. Pheiffer

The civil war in Liberia that officially ended in 2003 left the country devastated. The physical infrastructure, economic framework, and governance structures were barely existent. Not only was there hardly a foundation on which to rebuild the country, the majority of Liberians were either living abroad or living in poverty. Hundreds of thousands of Liberians had left and/or fled the country while those who remained behind (and survived) had no jobs, no skills, no education, and no prospects. The vacuum of human capacity and threat to human security was enormous.

While Liberia transitioned out of war, the international community in this period became increasingly excited about the potential and actual role of remittances for development in the global South. Research revealed the relatively large aggregate sums sent home on an annual basis and the World Bank began to investigate the role of these funds in supporting household consumption. Throughout the 2000s, professionals and academics have produced an impressive array of studies on the interaction of migration, development, and remittances. Despite this increased attention to the remittance-development nexus, however, scholarship of remittances in post-conflict states in particular has remained scarce.

The challenge with post-conflict states is that untenable political situations and extreme capacity deficits limit severely the extent to which data can be collected and analyzed. Until relatively recently Liberia has been an example of a potentially interesting but largely neglected case study in remittances. This began to change as peace settled in and stability began to coalesce in the latter part of the decade. In 2006 the Central Bank of Liberia started to publish remittance data in its annual reports, which revealed surprisingly large sums of repatriated income. The publication in 2009 of the Truth and Reconciliation Commission (TRC) final report underwrote this finding and provided greater detail of the role which the diaspora—especially U.S. diaspora—and remittances played in Liberia's post-conflict reconstruction.

What has made the Liberian case even more interesting is the fact that the World Bank in 2012 ranked Liberia the second highest remittance-recipient (as a per-



cent of GDP) in the world. This not only indicates that remittances are important to Liberian households but also implies the essentiality of remittances to the slow-growing Liberian economy as a whole. After a brief introduction to the

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Liberian civil war, this section will begin to outline the size, channels, and importance of remittances to Liberia in an effort to contribute to the understanding of remittances to developing countries in general but also to post-conflict states in particular.

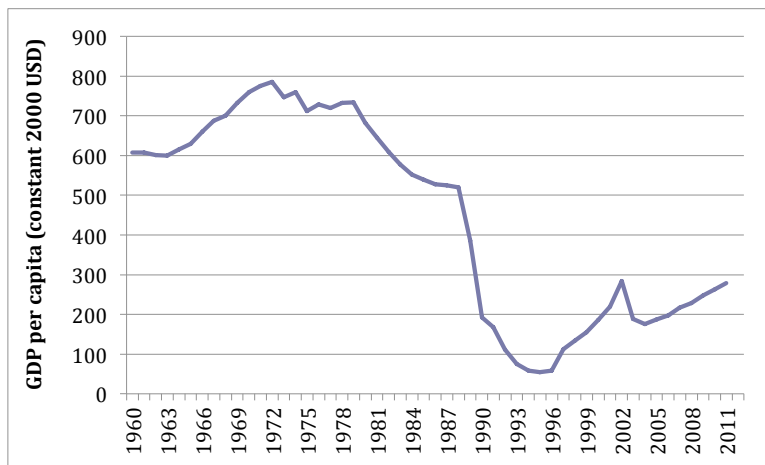
### THE LIBERIAN CIVIL WAR 1989–2003

In 1980, Master Sergeant Samuel Doe ended more than 100 years of Americo-Liberian rule when he overthrew and killed incumbent president William Tolbert Jr. in a popular coup d'état. Despite initial promises for revolutionary inclusion of all ethnic groups, Doe's military regime ruled with brutality, favoritism, and corruption for the next decade. The country's economic condition declined significantly under his military regime (see Figure 1). In 1989, the National Patriotic Front of Liberia (NPFL), made up of members from formerly persecuted ethnic groups who had fled, invaded Liberia from Côte d'Ivoire. Between 1989 and 1993, civil war raged as other opposition groups sprang up to fight both the Doe government and each other for power.<sup>1</sup> Although Doe was killed in 1990, fighting between factions continued until 1993 when a ceasefire and coalition government was finally agreed upon. Elections were held in 1997 but peace remained fragile and intermittent fighting common.

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<sup>1</sup> For a detailed account of the dimensions of the civil war see for example Tim Hetherington's *Long Story Bit by Bit: Liberia Retold* (2009) and Ellen Johnson Sirleaf's *This Child Will Be Great: Memoir of a Remarkable Life by Africa's First Woman President* (2008).

**Figure 1: Liberia Per Capita Income 1960–2011**



Source: World Bank World Development Indicators.

Full-scale war broke out again in 1999 as various old and new opposition groups—largely organized along ethnic lines—militarized against the newly elected government. In addition, President Charles Taylor felt compelled to retaliate against his West African neighbors who had funded several of these opposition groups. Liberia consequently was engaged in a multi-front war both internally and externally, further wreaking havoc on the country’s human, physical, and economic resources. In 2003, internal and international pressure for a ceasefire led to an agreement for mediated peace talks in Ghana. In August, the Accra Peace Agreement was signed and President Taylor resigned and fled the country. The National Transitional Government of Liberia took power until free elections were held in 2005.

## THE DIASPORA

During the civil war as many as 780,000 Liberians<sup>2</sup> left the country at various points so that by end of the war, nearly 30 percent of the total Liberian population was living abroad. Six years after the war ended, 450,000 Liberians—12 percent of the population—were still living as part of the diaspora (Grigorian et al. 2008). Some sought refuge in neighboring African countries while others fled to destinations in Europe and the U.S. where they had relatives or friends already living. The “near diaspora” settled in Ghana, Côte d’Ivoire, Sierra Leone, Nigeria,

<sup>2</sup> UN projects estimated more than a million Liberians living in the diaspora by the time the civil war ended in 2003.

Senegal, and Guinea while those in the “far diaspora” concentrated in the UK, the U.S., Sweden, and the Netherlands (Lubkemann 2008).

The number of Liberians who fled to neighboring countries was estimated at 133,000 in Guinea, 72,000 in Côte d’Ivoire, 67,000 in Sierra Leone, and 43,000 in Ghana (Refugees International 2005). The U.S. by far hosted—and continues to host—the largest Liberian diaspora outside of Africa. Estimates of the size of the diaspora in the U.S. vary; the 2000 U.S. Census measured the Liberian population at 39,030 of which 60 percent entered the country between 1990 and 2000. Some have argued, however, that the Liberian population was significantly undercounted in the census in cities like Minnesota that house some of the largest portions of the U.S. Liberian diaspora (Scott 2006). The U.S. officially resettled approximately 31,500 Liberians in the United States; the INS granted asylum to more than 6,600 between 1992 and 2007, and the Executive Office for Immigration Review granted asylum to 1,789 more between 1997 and 2007 (The Advocates for Human Rights 2009).<sup>3</sup> The official numbers do not consider Liberians who were undocumented or entered the U.S. unofficially.

Liberians in the U.S. are primarily concentrated in Providence, RI; Minneapolis/St. Paul, MN; Washington, DC/Baltimore; Philadelphia, PA; and Staten Island, NYC. Other major concentrations are known to exist in Worcester, MA; Atlanta, GA; New Jersey; Detroit, MI; Chicago, IL; Boston, MA; and Cleveland and Cincinnati, OH (Lubkemann 2008).

It is important to note that Liberia for many decades before the civil war had a diaspora community abroad. The early diaspora consisted mostly of students, diplomats, and businesspeople of the Americo-Liberian ethnic/social group who were relatively well off and constituted the upper echelons of the Liberian social and political classes. Many Liberians in particular pursued college degrees in the United States because of Liberia’s unique historic relationship with the U.S. The pre-war Liberian diaspora in the U.S.—and in Britain to a lesser extent—was much more homogenous than it would become during the war. The diaspora was also much smaller and the length of stay for those abroad tended to be much shorter as most Liberians returned home after completing their degrees or terms of service.

Liberian diaspora communities are organized along a variety of identities that are not necessarily mutually exclusive: political organizations, ethnic and tribal

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<sup>3</sup> The 2011 American Community Survey (ACS) measured the Liberian population in the U.S. at 72,262, 58.4% of whom left after 2000.

associations, women's groups, alumni associations, social clubs, and also faith-based groups. Although there is some evidence of tribal divisions within the diaspora, such cleavages are much less prominent among younger generations (The Advocates for Human Rights 2009).

## EVALUATING REMITTANCE DATA AVAILABILITY

As a result of the conflict and poor record keeping, remittance data for Liberia is largely nonexistent before 2006, and the data made available by the Central Bank of Liberia since then has not been wholly consistent with the numbers produced by other sources (see Tables 1–3, p. 76). A quick look at World Bank data<sup>4</sup> reveals what can, at best, be described as erratic: deep troughs and steep spikes in remittance flows to Liberia despite what we know about the general stability of these funds (Ratha 2005; Grabel 2008; UNDP 2011). Like remittance data everywhere, the problem is one both of tracking and measurement.

An underdeveloped (and user-unfriendly) financial sector limits remittance transmission through official channels, and a lack of capacity to measure remittances leads to data inconsistency. Such capacity problems tend to be particularly acute in post-conflict states like Liberia where mistrust and infrastructure inadequacies are widespread. Informal or in-kind transfers, by definition, are not accounted for in official estimates calculated from balance of payments residuals. Estimates of informal remittance flows to Sub-Saharan Africa generally are an additional 45–65 percent of formal flows—a proportion significantly higher than in other regions (Freund and Spatafora 2005; Gupta et al. 2007). Given the nature of these flows, information about informal remittances to Liberia is not readily available. It is known, however, that Liberia has a vibrant informal economy. This suggests that a large portion of the population either does not have access to, or trust, conducting business or transactions in the formal sector.

Furthermore, up until the fifth edition of the International Monetary Fund's *Balance of Payments Manual*, remittance-related items were defined “in ways that made identification and analysis of remittances difficult for some data users” (IMF 2009:1). The changes in IMF/World Bank methodology have been intended to be more inclusive and consistent. But these changes have also contributed confusion in measurement despite best efforts to standardize the practice. The

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4 The World Bank uses official country data produced by the Central Bank of Liberia, which makes the inconsistencies between the two sources a bit of an enigma. Discrepancies may be a result of definitional differences of “workers’ remittances,” “personal transfers,” and what is counted as such.

task of analyzing remittances is therefore a difficult and complicated one that is perhaps better understood as an art rather than a science.

**Table 1: Central Bank Remittances Classified as Workers or “Personal” Remittances\***

Year	2007**	2008**	2009	2010	2011	Nov. 2012
Remittance Inflows (millions USD)	303.2	201.0	184.6	260.0	488.2	459.8
Remittance Outflows (millions USD)	139.5	156.0	134.7	234.4	231.2	344.3
Net Remittance Flows (millions USD)	163.7	45.6	49.9	25.7	256.9	115.5

Source: Central Bank of Liberia Annual Reports.

\*Data identified by the CBL as workers or personal remittances (changed from “workers” in earlier reports to “personal” in later reports).

\*\*Total net remittances reported by the CBL in 2007 and 2008 reports were 42.5 and 36.2 million, respectively, lining up more closely with World Bank data; this indicates that there may be some discrepancies in what is meant by “workers remittances” versus total remittances.

**Table 2: World Bank Workers’ Remittance Receipts for Liberia**

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Remittances (millions USD)	53.5	22.6	60.5	42.1	35.7	7.0	0.2	257.9	378

Source: World Bank World Development Indicators.

\*Data from the November 2012 World Bank Migration and Development Brief.

**Table 3: United Nations Remittance Flows\***

Year	2006	2007	2008	2009	2010
Remittance** Inflows (millions USD)	79	62	58	25	27
Remittance Outflows (millions USD)				1	1

\* World Bank staff calculations based on data from IMF Balance of Payments Statistics Yearbook 2011 and data releases from central banks, national statistical agencies, and World Bank country desks.

\*\*Remittances are defined as the sum of workers’ remittances, compensation of employees, and migrants’ transfers.

## REMITTANCES TO LIBERIA

### Value of Remittances

Despite uncertainties of measurement, it is apparent that remittances to Liberia are significant and are becoming increasingly so. Even while various data sources disagree on exact values, a steep upward trend is evident. A November 2012 report by the World Bank ranked Liberia the world's second highest remittance recipient (as a percent of GDP) based on 2011 data, beat out only by Tajikistan. Remittances for 2012 were estimated to be \$18 million higher than in 2011, amounting to a total of \$378 million. Since GNI per capita in Liberia in 2011 was a mere \$330, it is obvious that remittances make up a significant portion of receiving households' income, even if exact values are difficult to extrapolate.

Survey research and interviews further underscore this finding. The final report of Liberia's TRC Diaspora Project suggests that as many as 72 percent of Liberians in the diaspora in the U.S. send money home in annual amounts of \$3,800–\$4,150 per remitting household. Stephen Lubkemann (2008) presents similar figures; his three-year 136 household survey shows that these households in aggregate sent between \$312,891 and \$368,261 to Liberia from 2002 to 2004. These same households sent an additional \$175,315 to \$279,275 to Liberians living in other West African countries in the same time period. Considering that, since Lubkemann's publication, the size of the diaspora in the U.S. has grown to 72,262 and the diaspora as a whole has a relatively high level of education (predicating high levels of income), the increase in remittances is not surprising.

### OFFICIAL REMITTANCE FLOW CHANNELS

Liberia has three major money transfer operators (MTOs)—Western Union, MoneyGram and Ria—that provide a combination of cash-to-cash and online services. In 2009 commercial banks serving as agents for Western Union and MoneyGram accounted for 99 percent of total inward remittances while the private money-remittance firms<sup>5</sup> accounted for only one percent (CBL Annual Report 2009). The cost of sending remittances from the U.S. to Liberia is remarkably low in comparison to money-transfer costs in most of Sub-Saharan Africa (Send Money Africa 2013). The average cost of sending \$200 from the United States to

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5 The Central Bank identified People Enterprises Incorporated and I.B. Xpress Incorporated as the two major private remittance firms.

Liberia is 5.05 percent,<sup>6</sup> while it costs only 3.22<sup>7</sup> percent to send \$500<sup>8</sup> (Remittance Prices Worldwide). An important component of the relatively low cost of money transfer between the U.S. and Liberia is that Liberia has an effectively dollarized economy. Because remittance-receivers can use U.S. dollars in Liberia, any exchange rate or conversion fees essentially are eliminated.

Since 2011, Liberia has actively encouraged greater competition in the MTO sector to facilitate greater access and lower costs. A Central Bank directive prohibited exclusive arrangements in money transfer services between licensed financial institutions and MTOs. In the case of violation, financial institutions are liable for L\$100,000.00 (\$1,350 current USD)<sup>9</sup> for each day of violation “and/or other supervisory sanctions as may be deemed appropriate by the CBL” (CBL Directive 2011). In July 2012, First International Bank in Liberia became the first financial institution to comply with the CBL directive and offer both MoneyGram and Western Union services (Williams 2012).

The cost of sending remittances to Liberia cannot, as in some other cases, be employed as a primary explanation for high remittance traffic in the informal sector. Although the cost of remittance transfers from non-U.S. countries is likely to be higher, a great proportion of remittances are sent from the United States. The lack of availability of commercial bank branches and MTO services especially in rural areas (discussed below) is a more likely explanation. A second determining factor is also mistrust of the country’s capacity to responsibly handle its citizens’ money. Although remittance costs should be monitored and competition encouraged, Liberia’s particular situation indicates that factors other than costs are more determinant.

## THE INFORMAL ECONOMY

Liberia’s financial system is not very deep or very integrated. The war left the banks and financial sector undercapitalized and saddled with huge non-performing assets. During the conflict banks that were still operational were forced to commit significant resources to having cash-on-hand because escalating conflict could cause large and sudden runs on banks. Banks became reluctant to extend

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6 The cost ranges from a low 2.5 percent charge by Ria for cash-to-cash transfers to a high of 7.5 percent for online services by Western Union.

7 The cost ranges from a 1.6 percent charge to send cash-to-cash by Ria to 8.4 percent for online services via Western Union.

8 Data collected is for the third quarter of 2012.

9 Liberia’s 2011 PPP conversion factor (GDP) to market exchange rate ratio was 0.6.

credit because of the need to be liquid and to hedge against increased default risk. Furthermore, banks needed to have more hard currency in reserve as the economy inadvertently had become dollarized. Banks largely became reliant on non-funded income, especially from remittance fees charged by Western Union and MoneyGram for revenue. An estimated 80 percent of bank revenues from 2002 to 2007 came from non-funded income (International Bank (Liberia) Limited 2007).

Bank branches in Liberia number 78 in total and the vast majority of these are located in Montserrado County—the most populous and smallest of the 15 counties. Montserrado is home to approximately one-third of the population with a density of more than 1,500 people per square mile. In comparison, the average population density for the rest of Liberia is 93 people per square mile, ranging from 22 people in Gbarpolu County to 198 in Margibi County (Liberia Census 2008). Montserrado County is served by 46 bank branches while the other 32 bank branches are scattered across the rest of Liberia (Table 4).

**Table 4: Expansion in Bank Branches 2010 to 2012**

County	2010	2012
Montserrado	46	46
Margibi	9	9
Grand Cape Mount	1	1
Grand Bassa	3	5
Sinoe	0	1
Maryland	4	4
Bong	2	2
Nimba	6	7
Lofa	2	2
Grand Gedeh	1	1
<b>Total</b>	<b>74</b>	<b>78</b>

Source: Liberian Central Bank 2012 Newsletter and 2012 Central Bank Annual Report.

A 2011 survey on the growth of grassroots businesses in Liberia revealed that a strikingly low three percent of loans taken for starting grassroots businesses came from banks, while 34 percent borrowed from family or friends. Thirty-five percent borrowed from the UN or an NGO and another 17 percent borrowed from “Susu” clubs.<sup>10</sup> Only one percent borrowed from government-sponsored

<sup>10</sup> A form of rotating savings and credit association.



micro-credit programs from 2004 to 2008 (Tarway-Twalla 2011). Although these grassroots businesses are by definition small and informal, a de facto disadvantage for access to credit, their dependence on informal borrowing reveals the vibrancy of the informal economy. This trend is amplified in rural areas with limited access to banks or bank branches (Tarway-Twalla and Geegbae 2012). The ILO estimates that 60 percent of those working in the non-agricultural sector in 2011 were employed informally<sup>11</sup> and 49.5 percent of non-agricultural employees were employed in the informal sector (ILO 2011).<sup>12</sup>

The point is that although informal remittances are difficult to quantify, the existence of a vibrant informal economy indicates that much of the transaction that occurs in Liberia does not happen through formal channels. The depth of the informal economy is a function of prices in the formal sector, *but also* of access to formal services as well as the perception of credibility and reliability. Thus, despite low costs of remittance transfer (at least from the U.S.), activity in the informal sector remains high and significant sums are still sent and received informally.

## **THE ROLE OF REMITTANCES IN POST-CONFLICT RECONSTRUCTION**

The lack of jobs and social services has limited sources of income for many Liberians. With very high unemployment, many work informally or in the informal economy (see discussion next page) but limited labor and wage protections mean very low and inconsistent income (ILO 2011). Remittances tend to be relatively reliable and even counter-cyclical, implying that for the unemployed (80+ percent of the Liberian population by some estimates), remittances are a primary source of household income. The emphasis in remittance research has been on strategies to leverage remittances for development rather than “merely” for consumption. Yet, consumption support has been an essential function of remittances in Liberia and in Liberian refugee camps in West Africa (Lubkemann 2008). The TRC report indicates that individuals remitting money home often support as many as 10–20 people each even though only 11 percent of respondents in a 2011 survey acknowledged receiving remittances (Vinck et al. 2011).<sup>13</sup>

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11 Informal employment refers to those jobs that generally lack basic social or legal protections or employment benefits and may be found in the formal sector, informal sector, or households.

12 The informal sector consists of unregistered and/or small unincorporated private enterprises engaged in the production of goods or services for sale or barter.

13 Underreporting by remittance recipients is not uncommon for fear of taxation or the withholding of government or other aid, welfare, and support (see, for example, Grigorian et al. 2008).

## Remittance Transfers in Sierra Leone: The Predominance of Informal Channels

According to the United Nations Development Program, formal money transfer operators such as MoneyGram and Western Union account only for a small share of the remittance transfers into Sierra Leone. A small proportion of remittances also are transferred by mobile phone credits. But the bulk of remittance flows enters the economy through unofficial remittance agents operating in partnerships with small business owners and merchants in the local communities.

The discrepancy between remittance figures reported by the International Monetary Fund and the World Bank and the remittance estimates reported by other entities such as the International Fund for Agricultural Development and the government of Sierra Leone highlights the extensive role of informal networks in remittance transfers. The high cost of transfers for use of formal remittance channels is one factor that hinders their use. The World Bank reports that the average cost of sending money to Africa in 2012 was 11.89 percent, three percent higher than the global average cost for the same period. Additionally, the most expensive 10 corridors were all intra-African corridors. Commercial bank transfers accounted for the most expensive means for remittance transfers.

In 2009, one company began offering mobile money transfers in Sierra Leone. The company operates across all mobile networks and aims to drive economic empowerment throughout the country by “banking the unbanked” and bringing more convenience to the banked population and businesses. The penetration rate of cellular mobile phones has seen a continuous rise since 2008—from 18 percent to 36 percent in 2011 (The World Bank 2013). It remains to be seen if the mobile remittances sector can provide significant competition to the informal transfer networks that currently handle a large part of the country’s remittance flows.

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Reference: <http://tinyurl.com/SMA-WB-Report2013>

Liberians living in Ghanaian refugee camps reported using remittances not only for consumption or in emergency situations but also to start up, and invest in, small businesses within the refugee camps too. Liberian refugees’ demand for remittance services in the camps was so great that Western Union established offices in Ghana and Côte d’Ivoire specifically for the transfer of remittances from the United States to Liberian refugees (Crisp 2003).

Furthermore, donations channeled through NGOs, political organizations, ethnic/tribal organizations, women’s groups, alumni associations, social clubs,

and faith-based groups have supported home village projects within Liberia. Funds have been used to rebuild clinics and health centers, schools and bridges, and to provide support to rural farmers (Antwi-Boateng 2012; The Advocates for Human Rights 2009). Members of the diaspora, primarily through the Liberian Professionals Network, have also encouraged the Liberian government to assist in the establishment of a Diaspora Investment Fund. Such a fund would use remittances directly for investment in small and medium enterprises in Liberia (LPN 2010). Although the government has been slow to provide a comprehensive response, the organization continues to advocate avenues to provide greater and more effective investment opportunities.

## **THE ROLE OF THE DIASPORA IN POST-CONFLICT RECONSTRUCTION**

The diaspora's influence has shifted from "hard" power during the war to "soft" power during reconstruction. The diaspora has redirected its engagement with Liberia from active (especially financial) support to wielding political and financial influence through organization and campaigning (Antwi-Boateng 2012).

### **Political Engagement**

The August 2003 Peace Agreement established the Truth and Reconciliation Commission of Liberia (TRC) and was enacted into law in 2005. An early initiative of the TRC was to engage the diaspora—particularly the U.S. diaspora—in its work, which it did through partnership with The Advocates for Human Rights.<sup>14</sup> The diaspora was able to partake in the hearings and statement-giving that produced the final findings of the TRC report. The rationale for including the diaspora in the TRC process in part was a result of the diaspora's economic influence, which made it also politically powerful. The Sirleaf government furthermore recognized early on the potential for harnessing diaspora resources in peace-building and reconstruction and therefore sought its participation (Young and Park 2009). Political organization took other forms too. Diaspora members campaigned actively for various candidates during the election and the Union of Liberian Associations in the Americas hosted meetings to discuss institutional development and governance in Liberia both before and after the election.

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14 The organization was known at the time as Minnesota Advocates for Human Rights.

## Knowledge Remittance

The Liberian diaspora in the U.S. is highly educated. Of the 53,251 Liberians over the age of 25 counted in the 2011 U.S. ACS survey, 25.7 percent held a high school diploma and 36.4 percent had some college or an associate's degree. Another 17.8 percent held a bachelor's degree, while 8.1 percent had attained a graduate or professional degree. The median household income for Liberians surveyed was \$41,340.<sup>15</sup> A well-educated diaspora for Liberia implies relatively high remittances because of higher income. High levels of education also represent an important source of knowledge that could be used from afar or lured back to Liberia to fill in capacity deficits.

As a part of Liberia's Poverty Reduction Strategy (PRS), the Liberian government has begun to encourage knowledge and skill remittance to Liberia. It established the Transfer of Knowledge through Expatriate Nationals (TOKTEN) and Senior Executive Service (SES) programs with the intention of drawing back the educated and skilled members of the diaspora. Because only 14.4 percent of public sector employees hold graduate degrees, "the focus is to recruit doctors, engineers, scientists, economists, environmentalists, business executives and other highly skilled professionals" (Grigorian et al. 2008).

It is important to note, however, that initiatives to use the resources of the diaspora are not apolitical: "Capacity builders are not merely imparting knowledge, but intervening politically" (Hughes 2011: 1499).<sup>16</sup> When locals have to compete (or feel like they do) with diaspora returnees for government jobs and economic opportunities, the result can be a kind of cold war (Antwi-Boateng 2012). Liberians who stayed behind may feel as though they are more deserving of these opportunities because they lived through the war and consequently suffered proportionately more. This reaction may be an unintended and perhaps unavoidable sentiment in the current context. But, programs like TOKTEN and SES must be implemented thoughtfully not to exacerbate resentment and cause legitimacy problems, especially for those expatriates destined for government positions.

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<sup>15</sup> Median household income for Liberians is lower than the national average but is still significantly above the poverty line in the U.S.

<sup>16</sup> For a critical analysis of diaspora expatriate programs see Caroline Hughes' "The politics of knowledge: ethnicity, capacity and return in post conflict reconstruction policy," *Review of International Studies*, October 2011.

## **Social Remittance**

Levitt and Lamba-Nieves (2011) identify four types of social remittance: norms, practices, identities, and social capital. They make the case that in addition to economic outcomes, diaspora engagement affects ideas and behaviors in home countries too. Social remittances can be imparted individually or collectively (through organizations) and affect health outcomes, education outcomes, political views, etc. The provision of social remittance is just as valuable as monetary remittances in post-conflict states; needs extend far beyond the monetary in instances where there has been total institutional collapse.

In Liberia, social remittances are evident in a variety of forms. Members of the diaspora have, for example, participated in persuasion/dialogue through conflict mediation, counseling of child soldiers, and the encouragement of productive, non-violent political dissent. Other avenues have included public diplomacy, civic engagement, development assistance and support for job creation programs (Antwi-Boateng 2012). Members of the diaspora also continue to provide know-how about starting and operating businesses to those pursuing formal or informal small enterprises (The Advocates for Human Rights 2009). Although social remittances are not distinctly separate from knowledge remittance, social remittances represent a wider array of social goods transmitted from the diaspora to the home country.

## **CONCLUSIONS AND NEXT STEPS**

Liberia's economic situation is improving, but capacity building will take time, and getting back to pre-civil war levels of income will only happen slowly. Remittances have been an important source of income to many Liberian households in Liberia, other West African countries, and refugee camps both during the war and in its aftermath. Beyond individual consumption, the diaspora has also been brainstorming ways in which to leverage funds for greater and larger-scale business and infrastructure investment. The diaspora's political engagement and social remittances also have played an important part and cannot be excluded from the remittance story. After all, remittances are not possible without a diaspora.

More can be done to use the great capacity stored in remittances and the diaspora for reconstruction of Liberia. The government has made welcome steps to encourage remittances through increased MTO competition and through the creation of programs such as TOKTEN and SES. Including the diaspora in the TRC

process furthermore was a pioneering move from which other countries engaged in TRC processes can learn much. However, important limitations still exist. Even greater benefits for development and reconstruction could be achieved by:

**1. Extending remittance services to reach more people in more remote locations**

Promoting remittances to allow more households greater access to these funds is an important development imperative, especially while alternative sources of income remain limited. Attention must be paid in particular to reaching rural areas where bank branches are less accessible. Providing greater access and/or using microfinance networks to provide money sending-receiving services could lower (travel) costs and disseminate the benefits of remittances more widely. Using microfinance networks and mobile technology may be a way in which the rural poor could benefit from money-sending services in ways they currently cannot.

**2. Allowing dual citizenship for Liberians living in the diaspora**

A significant hindrance to longer-term investment in Liberia for many in the diaspora is the fact that they are not able to hold dual citizenship. The Liberian government would be much better served by revising this policy and to allow this transnational community to maintain ties equally to both home and host country. The Liberian diaspora is a transnational population in the truest sense; its members are likely to invest more time and resources in Liberia if they were able to move freely between the two places.

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**Remittances for post-conflict states like Liberia are an invaluable source of income. But, it is important that remittances not become a substitute for structural development.**

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**3. Exploring ways to leverage remittances to finance investment through diaspora bonds and securitization of remittance flows**

The African Development Bank (AfDB) has made the case that diaspora bonds “have a rich history of bailing out countries in times of crisis” and that securitization “will help countries in Africa access international capital markets, reduce convertibility risk, and obtain investment-grade ratings” (Shimeles 2010). Many African countries face institutional constraints to exploring these financing options, but AfDB and the World Bank have suggested solutions to these limita-

tions (Ratha et al. 2008). Given Liberia's weak financial markets and infrastructure deficiencies, finding new sources of financing development is imperative.

Remittances for post-conflict states like Liberia are an invaluable source of income. But, it is important that remittances not become a substitute for structural development. Being first (or second in Liberia's case) in remittances is not, in itself, a laudable achievement. There are downsides to remittance-dependence, too. Small, closed economies with large inflows of remittances and little absorptive capacity may experience exchange rate appreciation, inflation, and an erosion of external competitiveness. Although their benefits certainly outweigh their costs in Liberia, remittance flows may furthermore create disincentives for the government to provide jobs and other economic opportunities (Gabel 2008). Remittances can—and do—support reconstruction in war-torn countries like Liberia but remittances cannot sustainably be a replacement for government reform, investment, and reconstruction.

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## Section III: Diaspora Networks and Co-Development

### 5. Mobile Remittances: A Novel Tool for Post-Conflict Development?

Daivi Rodima-Taylor

The use of novel information and communication technologies (ICT) has become increasingly widespread in remittance transfers in many developing countries. That applies particularly to diversifying mobile service platforms. It has been estimated that developing countries account for approximately two-thirds of the world's mobile subscriptions (OECD 2009, 14). In Sub-Saharan Africa where there are some of the lowest levels of infrastructure investments in the world, the use of mobile telephones is rapidly expanding—there are 10 times as many mobile phones as land-lines and 60 percent of the population has mobile coverage (Aker and Mbiti 2010, 207). Mobile phones are increasingly evolving from “simple communication tools” to complex “service delivery platforms” (208) that enable marginalized populations access to diverse mobile money services and development projects (*m-money* and *m-development*). Used increasingly for financial transfers, mobile phones enable “affordable financial services for the first time to many people with extremely limited means, while offering them greater security and efficiency than traditional alternatives” (OECD 2009: 19).

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**Mobile telecommunications contribute to better access to information, improved connectivity within social networks, and enhanced security.**

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Mobile telecommunications contribute to better access to information, improved connectivity within social networks, and enhanced security. They have facilitated vast reduction in communication costs and that has improved market efficiency and enhanced economic production in many developing areas (Jensen 2007; Aker 2010).

#### **MOBILE REMITTANCES, DEVELOPMENT, AND POST-CONFLICT COMMUNITIES**

Mobile technology has the potential to reshape social and economic relations in local communities, creating novel networks and enabling new modes of money and information transfer that is important both for governance as well as economic development initiatives. Mobile-based applications are widely used in

public governance in many places in Africa (*e-governance*), allowing people better access to information and decision-making, particularly at local and municipal levels. ICT-based applications are used widely for diverse services such as processing business applications; customs clearance; citizen and electoral registration; tax, financial, land and human resource management (Waema and Adera 2011). While amplifying social interactions and frequently enabling better state-society integration, the use of mobile technology for local governance can also create alternative and informal structures outside formal governance (Graesholm 2012). Mobile technologies are also significant in facilitating alternative economic institutions. According to Molony (2009), informal entrepreneurs and market traders in Tanzania rely almost exclusively on mobile phones for maintaining their networks and expanding customer base. Mobile applications can be crucial for building trust and relations of production in the local informal economy, creating novel types of social capital that are more impersonal and maintained through information and communication technologies—“socio-technical capital” (Molony 2009). Mobile technologies have potential to create new relationships in the local communities, and re-ordering social and economic hierarchies in society (De Bruijn, Nyamnjoh, and Brinkman 2009, 21).

Mobile phone-based financial applications are particularly important in post-conflict contexts that are frequently characterized by a systemic breakdown of telecommunication, transport, and market infrastructures. Communication among the people of a nation is of crucial importance for sustainable peace-building and post-conflict rehabilitation, and modern information and communication technologies can serve as tools of national reconciliation and development (Best 2010). In many post-conflict communities, mobile phones are the only means of communication and security. In post-conflict Liberia with devastated fixed-line telecommunications infrastructure, a vibrant mobile phone sector with several competitive operators emerged, enabling increased productivity and more efficient business strategies among local farmers and entrepreneurs (Best 2010). A similar situation was observed with mobile telecommunication services among micro-entrepreneurs in post-conflict Rwanda (Donner 2004). And in Somalia, satellite communications (VSAT) infrastructure emerged and operated in a largely self-regulated fashion in local war-torn communities, providing productive and innovative business opportunities for local entrepreneurs (Feldman 2007). There, remittances sent through informal transfer systems such as *hawala* provided a particularly strong incentive for the development of a strong telecommunications infrastructure (see also “Informal Remittance Systems and

Post-Conflict Development,” this volume). Mobile financial platforms are often essential for post-conflict communities as they enable the continuation of local livelihoods amidst the breakdown of formal financial institutions and physical infrastructure (including roads, markets, and fixed-line telecommunication networks).

## **ISSUES OF REGULATION AND INTEGRATION OF MOBILE REMITTANCE SYSTEMS**

Several recent studies on mobile remittances have suggested that *m-banking* can effectively contribute to the financial inclusion of the poor and marginal. *M-banking* provides convenient and secure financial services to those previously unbanked (Sultana 2009, 4), accommodating the requirements of a cash-based economy and irregular income flows (Alampay 2010, 78). Branchless banking is less expensive as it is based on existing infrastructure and equipment, including agent shops and mobile phones (Alampay 2010; McKay and Pickens 2010). Mobile remittances can contribute to development by reducing direct remittance costs, increasing the geographical spread of distribution points, increasing the percentage of remittances flowing through formal channels, and contributing to a broader inclusivity of poor populations to financial services (Porter 2009). Remittances could potentially be effective drivers for *m-money* usage as they have a well-defined and steady customer base and are relatively stable as compared to other forms of investment (Alampay 2010).

*M-money* allows a mobile phone subscriber to deposit value on their mobile account and send it to another individual (Alampay 2010: 77). Current *m-money* services include transferring money between individuals domestically and internationally, bill payments, repayments of loans of various microfinance and credit arrangements, etc. The actors involved in *m-banking* can be diverse—some *m-money* applications are offered by banking institutions, some by telecommunication providers, and in many cases, there are partnerships between banks and mobile communication companies (Aker and Mbiti 2010; Porteus 2006). The two main models of mobile banking involve the “bank-based model” where every customer has a direct contractual relationship with a licensed and supervised financial institution through a retail agent; and the “nonbank-based model” where customer transfers or exchanges cash at a retail agent in return for an electronic record of value (Sultana 2009). The development of mobile money transfer systems therefore faces a fundamental challenge of facilitating a coherent policy and regulatory environment needed for a successful use of the

applications. That applies particularly to the convergence of communication and financial services that often involve separate regulatory authorities (OECD 2009).

Some recent studies indicate a comparatively greater success of nonbank-based models of mobile money applications. These include the initiatives of M-PESA in Kenya as well as G-Cash in the Philippines. M-PESA (*m-money* in Kiswahili) started as a service for the receipt and payment of microfinance loans through the Safaricom mobile network and since 2007 has successfully developed other functions like remittance transfers, micro-insurance, school fees and bill payment (Mas and Morawczynki 2009; Sultana 2009). It allows cheap and rapid money transfers across Kenya, and the accounts can also be used for storing money. It has been estimated that more than 80 percent of those with mobile phones in Kenya use mobile money, and that annual mobile money transfer in Kenya reaches 10 billion USD (Fengler 2012). M-PESA is viewed as a payment service provider rather than a formal bank by the regulating authorities and the Central Bank of Kenya, and the service of payment transfer is listed in the telecommunication services license agreement. It therefore falls legally under telecommunication service. However, the primary regulator of mobile operators' *m-banking* services is the banking regulator. Money collected by agents is deposited in a trust account in one of the leading commercial banks in Kenya, providing legal protection to the beneficiaries. It cannot be used for lending or investment by the mobile operator. Concerns over money laundering and customer privacy have been further mitigated by regular monitoring by the Central Bank of Kenya and the Communication Commission of Kenya. M-PESA services are often credited for improving the circulation of money in Kenya as well as enhancing the transparency of money transfer operations. They have provided unique opportunities for integrating different forms of financial inclusion, including microfinance, savings, and remittance transfer services.

The G-Cash initiative in the Philippines is another success story of a nonbank-led branchless banking scheme. It was introduced in 2008 by Globe Telecom and functions as an electronic money transfer facility. It allows person-to-person transfers, purchase of goods from merchants, and bill payments (Alampay 2010; Porter 2009; Sultana 2009). The G-Cash initiative similarly owes its success partly to an enabling legislative framework and efficient safeguards. The General Banking Law of 2000 allowed the recognition of microfinance as a legitimate banking activity, and the Electronic Commerce Act of 2000 helps regulate electronic transactions and provides necessary safeguards.

One of the main challenges for mobile remittance systems is finding the balance between regulatory and policy measures that are aimed at protecting consumers against fraud, and the potentially constraining effects of certain anti-money-laundering/combating-financial-terrorism [AML/CFT] regulations on mobile money transactions, account opening requirements, and the authority of the agents involved in money transfers (Sultana 2009; Alampay 2010). Challenges also lie in creating enabling institutional and legislative environments for mobile remittances, including necessary regulatory reforms involving the telecommunications and banking sector, and related institutional partnerships. In order to improve cross-border and institutional interoperability and better integrate remittance transfers with other financial services, attention must focus on enabling mobile money ecosystems. Such ecosystems would benefit from collaboration among multiple stakeholders such as banks, telecommunications operators, microfinance institutions, non-governmental and government institutions (Jenkins 2008; Omwansa 2009). Successful mobile money ecosystems enable the creation and replication of frameworks for larger regional mobile transactions and possibly regional e-currency, facilitating easy online payments across vast geographical areas (Jenkins 2008; Omwansa 2009). Developing expansive ecosystems for *m-transfers* can be seen as the next frontier for advancing innovative remittance services that may particularly benefit post-conflict areas.

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## 6. Transnational Remittances and Development in Post-Conflict Societies: The Case of El Salvador

Raúl Hinojosa-Ojeda

In analyzing remittances in post-conflict societies, one must begin with the conflicts themselves. How did the conflicts originate, including the associated migration and remittance flows? What were the roles of the migrant sending and receiving countries in the conflicts and in the post-conflict remittance and development dynamics? In the case of El Salvador's civil war in the 1980s, the subsequent mass migrations to the U.S. and the rise of major remittance flows in the last 30 years exemplify the importance of this transnational process over time; that process continues to shape the future of remittance sending and receiving communities long after the armed conflict has ended.

This transnational analysis also holds critical lessons for perhaps the most important global challenge and opportunity in the 21st century: peacefully and successfully managing integration and development between rich and poor countries. The massive inequalities that will need to be overcome, both within and across countries, create a world ripe for conflict. Associated with these inequalities, the largest mass migrations in human history will occur in the next few decades, both rural-to-urban as well as international migrations, generating billions in remittances, most of it currently in cash without the advantage of financial intermediations via savings and investment for development. While trade and investment reform have been extensively pursued as the orthodox policies of choice in pre- and post-conflict environments, the next few decades will see the rising importance of migration and remittance policy reform.

This reform movement will be much more significant in

determining the quality of human development and sustainable livelihoods in both sending and receiving countries, empowered by links to the world's vast diaspora communities (Hinojosa-Ojeda et al. 2013).

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**In the case of El Salvador's civil war in the 1980s, the subsequent mass migrations to the U.S. and the rise of major remittance flows in the last 30 years exemplify the importance of this transnational process over time; that process continues to shape the future of remittance sending and receiving communities long after the armed conflict has ended.**

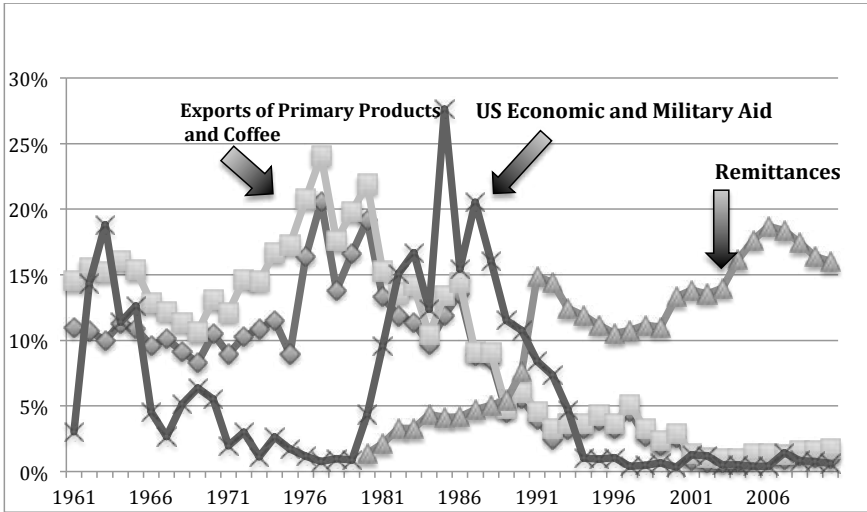
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# TRANSNATIONAL POST-CONFLICT SOCIETIES: EL SALVADOR AND THE U.S.

The case of El Salvador and the U.S. highlights the fact that migration and remittances have taken on an increasingly influential role and have become more dominant forms of North-South integration, which in turn have activated a series of transnational dynamics that affect the potential for human development in both sending and receiving countries (Hinojosa-Ojeda et al. 2001; Andrade-Eekhoff and Silva-Avalos 2003). In the U.S., the 2012 Presidential election is just one example of the growing importance of Latino diasporas, which are contributing—much like the Irish and Italian diasporas did in prior centuries—to the changing nature and direction of U.S. politics at home and abroad (Pew 2012a, 2012b).<sup>1</sup> In post-conflict El Salvador, migration and remittances have transformed the Salvadoran economy from one dominated by agricultural exports, primarily coffee, to an economy where remittances have replaced both traditional and non-traditional exports (see Figure 1). At the same time, high levels of consumption (financed by remittances) and other U.S. influences have increasingly characterized Salvadoran society and culture over the last decades.

**Figure 1: Coffee Exports, U.S. Aid and Remittances for El Salvador as a Percentage of GDP, 1960–2010**



Source: Author's calculations.

<sup>1</sup> Such influence from migrant groups within the host society can be a perceived threat within the “migration-security nexus” as well as to existing political, economic, social, and cultural norms (Lindley and Vollmer, 2009).

The Salvadoran Diaspora is very significant as a cautionary by-product of one of the major U.S. wars of the late 20th century. This U.S. intervention was a catalyst for a surging Salvadoran population within the U.S., which now accounts for the second largest foreign-born Latino population. Characterized by strong concentrations in strategic cities such as the metropolitan regions of Los Angeles, Washington, D.C., New York, and Houston, Salvadorans represent the fastest growing Latino ethnic group in the U.S. (Terrazas 2010). Whereas the current population of El Salvador is just over 6.2 million, it is estimated that between 1.8 million to 2.6 million Salvadorans live in the U.S.<sup>2</sup> Furthermore, the Salvadorans living in the U.S. produce about three times the GDP of El Salvador (Table 1). These highly skewed economic realities mean that the largest source of income, savings, investments and financial services potential exist in the context of the Diaspora and not within El Salvador’s national borders. Meanwhile, Salvadoran economic contributions to the U.S. are also substantial, exceeding many U.S. cities and some states by comparison. It is important to understand that the situation of Salvadorans living in the U.S. is highly unequal and varies depending on the income levels of the communities where they are concentrated. Strong migration corridors exist between localities in El Salvador and the U.S., which greatly influence the poverty and human development opportunities for migrants and their families in both the U.S. and El Salvador.

**Table 1: Population/GDP Comparison: El Salvador, Salvadorans Living in the U.S., and the United States**

	<b>Population</b>	<b>GDP per Capita</b>	<b>GDP</b>
El Salvador	6,227,491	\$3,703	\$23,062,800,000
Salvadorans in the U.S.	1,827,000	\$41,542.46	\$75,898,076,956
United States	311,591,917	\$48,111.97	\$14,991,300,000,000
Sources:	U.S. Census Bureau; CIA World Fact Book	World Bank GDPPC	World Bank Gross Domestic Product

**THE CONFLICT, ITS ORIGINS, AND POST-CONFLICT POLICIES**

The civil war in El Salvador that lasted from 1979 to 1992 is estimated to be responsible for the deaths of more than 75,000 people. During the Reagan Presidency, a very significant part of late Cold War American foreign policy was committed to supporting the right-wing Salvadoran government forces fight against the leftist Farabundo Marti National Liberation Front (FMLN). In fact, U.S.

<sup>2</sup> The U.S. Census Bureau reports 1,827,000 Salvadorans living in the U.S.; in contrast the Salvadoran Ministry of Foreign Relations reports a much larger number of 2.6 million Salvadorans who live in the U.S.

military and economic aid accounted for an average of 13.5 percent of Salvadoran GDP during the years of the war, and at the time represented the largest U.S. aid commitment ever in Latin America (USAID 2013; Seelke 2012). These conflicts, the U.S. involvement, and the resulting migration to the U.S. did not simply appear from one moment to the next (Commission for the Study of International Migration 1990). Instead, the conflict and resulting migration have roots in 19th century class and global relations that were characterized by longstanding inequalities, injustices, and the important role of the U.S. as well as social forces operating within Central America, legacies of which persisted and became more acute throughout the 20th century.<sup>3</sup>

Prior to the outbreak of the war, migration from El Salvador to the U.S. was miniscule with the exception of an elite population that would travel to the U.S.

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**The experience of El Salvador teaches us a great deal about 21st century development policy challenges both in a post-conflict society as well as in transnational economies in general.**

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(Escobar 2010). However, from the time of the war until now, approximately one-fourth to one-third of the population is estimated to have emigrated, primarily to the U.S. This

migration to the U.S. began as largely political and refugee in nature; it continues today, but now is primarily socio-economically motivated. The first major waves of migration occurred in large part as refugee populations arriving to the Washington, D.C. and Los Angeles metropolitan areas (Hamilton and Chinchilla 2001; Molina 2008). In these urban areas, many of the refugees' receiving communities were set up with the support of U.S.-based solidarity and religious networks. At the same time, these solidarity and religious networks were heavily involved in trying to stop the war and move it towards a negotiated resolution. In El Salvador, this position was shared by the guerillas during most of the conflict, and this outcome was eventually reached in 1992.

The Peace Treaty negotiated between the governing party, the Republican Nationalist Alliance (ARENA) and the FMLN guerrilla movement in 1992 attempted to create the context for a development agenda going forward (Boyce 1996). However, the dramatic drop in U.S. aid, combined with the damage of the war upon the society and economy, made it very difficult to build upon the development framework laid out in the Peace Accords (Lopez 2003). In the post-conflict environment, U.S. bilateral aid plummeted from more than \$500 million

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<sup>3</sup> For 19th century El Salvador and Central America see: Lindo-Fuentes 1991; Browning 1971. For 20th century globalization, economic and social changes see: Reynolds 1988; Robinson 2003; Coatsworth 1994; Goodwin 2001.

annually during the 1990s to less than \$30 million per year in 2011 and 2012 (USAID 2013; Seelke 2012). Fortunately, the huge and unanticipated boom in remittances has helped the Salvadoran economy and society to largely survive, albeit through an unsustainable mechanism. Remittance flows have grown to unprecedented and dominant proportions; in 2010, these flows represented nearly 15 percent of national GDP, more than six times foreign direct investment (FDI), and more than 12 times all foreign aid combined.<sup>4</sup>

The experience of El Salvador teaches us a great deal about 21st century development policy challenges both in a post-conflict society as well as in transnational economies in general. Since the civil war, El Salvador came to be seen as a “Star Reformer,” but interestingly, not a “Star Performer” (Hausmann et al. 2005; Summers 2003). No country in the Western Hemisphere or anywhere around the world had so closely followed the prescriptions of think tanks associated with the University of Chicago and the “Washington Consensus” (Seelke 2012; Madrid 2009). Following the war, El Salvador became a prime test case of the Washington Consensus and indeed El Salvador not only carried out structural adjustment policies, implemented free trade agreements, and fiscal reforms, it even adopted the U.S. dollar in 2001 (Edwards 2008; Edwards and Magendzo 2003; Towers and Borzutzky 2004; Segovia 2002). Yet despite its “Star Reformer” status, El Salvador has actually continued to be a “Poor Performer” (Edwards 2003; Acevedo 2003). It continues to experience significantly low rates of growth and increasing dependence on remittances as the primary mechanism for growth, with very perverse effects nationally and internationally.

## **THE RESULTING HUMAN DEVELOPMENT CRISIS ACROSS BORDERS: A VICIOUS CYCLE**

In 2005, the UNDP El Salvador Human Development Report (HDR) focused on migration for the first time as a critical component of understanding human development challenges; this approach was echoed in 2009 in the World HDR (Programa de las Naciones Unidas 2005; UNDP 2009). Our research at the Uni-

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4 In 2010, El Salvador’s GDP was \$23,062,800,000, according to World Bank database, and remittances were estimated by the Central Bank of El Salvador (BCR) to be \$3,430,900,000, representing nearly 15% of GDP. The same year the World Bank estimated foreign aid to El Salvador to be \$283,450,000, or less than 1/12 of remittances.

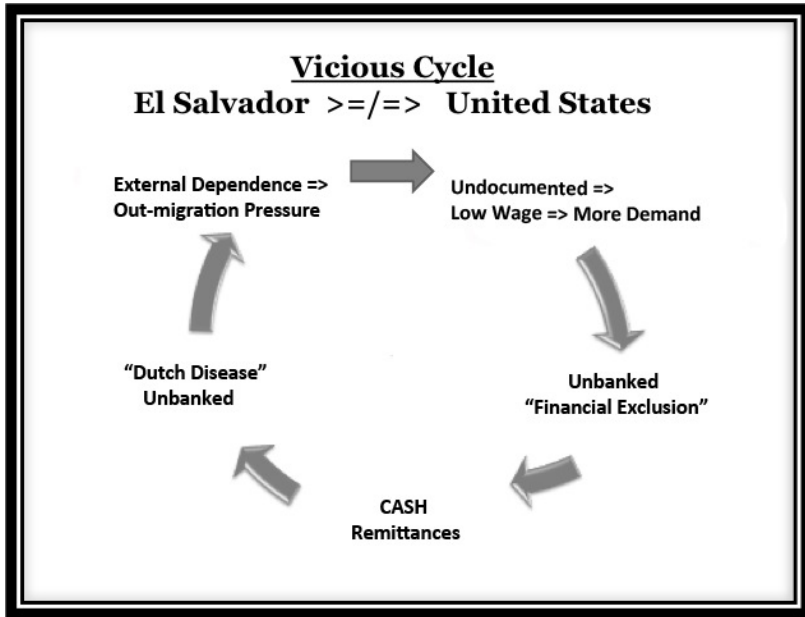
In 2004, the UNDP El Salvador using data from BCR estimated that remittances equaled 655% of FDI, and this trend has generally maintained itself in recent years (Programa de las Naciones Unidas 2005). There has, however, been growing cooperation and development investment from the South in recent years, particularly from Brazil (Xalma 2012). Venezuela has also initiated large-scale investments through a series of Alba companies in the areas of petroleum distribution and other energy sectors, as well as basic food production and supply chains. The UCLA NAID Center intends to evaluate the impact of the socio-productive investments made in El Salvador by Alba.

iversity of California, Los Angeles North American Integration and Development Center (UCLA NAID) has identified “vicious cycles” across migration corridors between the U.S. and El Salvador, which influence the opportunities available for human development in these places. The present vicious cycle is characterized by undocumented migration, lack of rights, financial exclusion, distorted cash-based economies, and external dependence, contributing to increasing inequality within the migrant sending and receiving areas (see Figure 2). The combination of the UNDP and NAID Center research has opened the door for increasing transnational research and policy discourses that are taking shape today to address how the process of migration and remittances affects human development across borders (UNDP El Salvador 2014). One of these initiatives includes the NAID Center searchable, online GIS tool for tracking village-by-village, zip code-by-zip code migration corridors between the U.S. and El Salvador (GIS database). Using this tool, we’ve identified very dense micro-corridors of migration linking very particular micro-geographies across borders. We are also using these approaches to track the ways in which inequalities in access to human development opportunities in El Salvador are linked to inequality of human development capabilities in the U.S. Our initial findings reveal deep interdependencies between village economies in El Salvador with key zip codes in the U.S.<sup>5</sup>

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5 For example, 60% of the people from the town of Ahuachapán live in northern Boston zip codes, and the remittances that these migrants send back amount to roughly the equivalent of 40% of local GDP, providing a strong (if artificial) subsidy to local economic activity). Remittances in receiving households, however, can represent up to 90% of income, making them extremely vulnerable to dynamics in the U.S. To more fully measure and understand how strong these dynamics are we will still need to conduct extensive surveying of binational households with detailed budget and expenditure portfolios of how the transnational families live in both the U.S. and El Salvador.

**Figure 2: Transnational Vicious Cycle between El Salvador and the United States**



Source: Hinojosa-Ojeda and Takash 2011.

**CONSEQUENCES OF THE “VICIOUS CYCLE”**

These intense interdependent relationships strongly influence price mechanisms in remittance receiving communities in El Salvador, increasing land and health care prices, for example, as well as putting strain on educational systems, youth aspirations, and productivity. These phenomena are not limited to El Salvador; in the south of Mexico similar dynamics can be observed, with similar effects upon local economic, social, and cultural factors (Hinojosa-Ojeda 2003). In El Salvador, these factors have depressed local production and rural activity with serious implications for future economic growth, food security, and poverty (Paige 1998). This trend seems counterintuitive in an extremely bio-diverse and historically very productive country (conditions that have long made it one of the most densely populated in Latin America). In the present socio-economic context, high land values and opportunity costs make it impractical for people to produce and earn a living (Damon 2010; Acevedo, Barry, and Rosa 1995; McReynolds 1998). This has had an overall negative effect upon human security as demonstrated by high dependency upon food imports and vulnerability to international price shocks, which contribute to food insecurity amongst the

poorest sectors and create large trade deficits. El Salvador's overall low productivity and economic growth during the last several decades has resulted in strong out-migration pressures (Acevedo, Barry, and Rosa 1995).

The remittance boom that is currently sustaining the Salvadoran economy, society, and culture of consumption is expected to decline in part as a consequence of changing demographics, an experience that is similar to other countries that have experienced large out-migration and today have relatively very little emigration (southern Europe, for example).<sup>6</sup> As has already been observed in Mexico, migration rates are slowing (Cornelius et al. 2009). Furthermore, the issue of declining and rapidly aging populations raises a number of very serious problems for the future of remittance-dependent countries like El Salvador, including future potential productivity and the sustainability of social security programs. By examining these longer-term dynamics and what they mean for El Salvador, the message is clear that there is a very short period of time within the next couple of decades where human development and economic growth can benefit from present remittance flows.

To take advantage of the post-conflict opportunities presented by migration and remittances, the remittance process must necessarily be reformed beginning immediately. Whereas the present situation is supporting levels of consumption and income growth in certain parts of the country, it is unsustainable over the medium to long term. For example, households receiving remittances appear to be doing extremely well compared to households that are not receiving remittances. This comparison also identifies a growing trend in inequality between remittance receiving and non-remittance receiving households, both in terms of income as well as access to basic services (Kandel and Cuellar 2012). However, when remittances are removed, the households become even poorer relative to non-remittance receiving households, not only in terms of assets but also in terms of sustainability over time (Programa de las Naciones Unidas 2005). Expanding these realities into projections of what would happen to local economies without present remittance flows or to the country as a whole both in macroeconomic terms as well as in terms of development options reveals a very grim outlook for the future of El Salvador.

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6 Greece, for instance, was the number one migrant exporting country around 1970, even more so than Spain, Italy, and Ireland, and over recent decades this fell to near zero net emigration and essentially zero in remittance flows just before the current Euro crisis. In fact, the migration and remittance decline were actually contributing parts of the present economic problems in Greece and Ireland, which are now shifting back to out-migration and renewed remittance flows since the crisis (Sirkeci, Cohen, and Ratha 2012).

The transnational vicious cycle not only has serious implications for El Salvador; it has implications that are important for U.S. policymakers to understand as well, as the Salvadoran population and other migrant populations represent the largest growing component of the economic “base of the pyramid” in the U.S., particularly in terms of lack of access to financial services and prospects for economic and income growth. These dynamics are in large part transmitted by a broken U.S. immigration system where the majority of migration occurs as undocumented. Despite the Temporary Protected Status (TPS) obtainable by Salvadorans in the U.S., most migrants still arrive in the U.S. undocumented or become undocumented at some point (Miyares et al. 2003). This translates into decreased earning potential (undocumented immigrants typically earn 15–20 percent less compared to their legal immigrant counterparts) and unequal access to immigrant and labor rights (Takash and Hinojosa-Ojeda n.d.; Hinojosa-Ojeda 2010, 2012; Kossoudji and Cobb-Clark 2002). Over the last 20 years, the U.S. Federal Reserve of Atlanta has documented the depressing of immigrant wages, owing in large part to a broken immigration system, which then ironically increases the demand for im/migrant labor and distorts the industries that are growing increasingly more dependent upon im/migrant labor (Brown, Hotchkiss, and Quispe-Agnoli 2008). At the same time, undocumented im/migrant families are largely unbanked with limited access to capital and financial services, and as a result, these lower income groups pay far higher fees for basic financial services, like check cashing and sending remittances home in comparison to naturalized citizens or documented immigrants (Hinojosa-Ojeda n.d.). This creates a situation where the costs associated with being poor and excluded are extremely high and are positively correlated as poverty and exclusion rise.

## **IMMIGRATION REFORM AND INTERNATIONAL DEVELOPMENT**

Changes in U.S. immigration policy could be an extremely important lever for post-post-conflict development in El Salvador. The current “enforcement-only” approach to immigration has not only proven ineffective at curbing undocumented immigration but has carried extremely high costs in terms of U.S. taxpayer spending, human life, and security (Hinojosa-Ojeda 2013).<sup>7</sup> The militarization of the border and the high costs associated with border crossing have forced migrants to rely on professional human smugglers and human traffickers, a business that has become increasingly lucrative, attracting more highly organized transnational organizations, often linked to other cross-border illicit activi-

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<sup>7</sup> Despite significant increases in border protection and enforcement, 92–98% of potential undocumented migrants keep trying to cross the border until they are successful (Cornelius et al. 2008).



ties (Cornelius 2006). The routes of undocumented migration have also become increasingly dangerous, as they have been pushed away from traditional urban corridors into inhospitable desert terrains. Once in the U.S., undocumented immigrants continue to be subject to abuses in their workplaces, communities, and even in their homes, as the threat of deportation or loss of economic security for themselves and their families keeps many from exercising rights and/or denouncing abuses (Kossoudji and Cobb-Clark 2002; Takash and Hinojosa-Ojeda forthcoming; Mazzucato and Schans 2011; Menjivar 2006). This situation has created a human rights crisis and is disconcerting, as such national policies that put migrants at risk of death, violence, and other abuses challenge the gains in human security and development made in the post-conflict era. In response to this, the governments of El Salvador and throughout Central America and Mexico, as well as international, regional, and U.S.-based migrant and human rights organizations, have endeavored to document and protect against abuses along the migration trajectory.

While the debate over immigration reform in the U.S. demonstrates recognition of the need to change the present cycle of immigration, both from a human as well as an economic perspective, NAID Center and other research indicates that legalization of the approximately 11 million undocumented immigrants and their full incorporation into the economic mainstream would generate dramatic positive effects for the U.S. economy. This NAID Center computable general equilibrium (CGE) modeling reveals that the U.S. economy would benefit through comprehensive immigration reform by approximately \$1.5 trillion over the next 10 years, while in comparison a mass deportation would result in a \$2.6 trillion decline to the U.S. economy over the same period (Hinojosa-Ojeda 2012, 2010). The positive impact of comprehensive immigration reform in the U.S. would exceed even traditional economic development agendas like trade and investment liberalization; however, these additional benefits would go disproportionately to the U.S. rather than to the migrant-sending countries.

Using the same CGE models for the sending countries, however, reveals that the consequent impact of immigration reform in the U.S. would not be as positive for El Salvador, Mexico, or other migration and remittance-dependent countries. The post-1986 Immigration Reform and Control Act (IRCA) experience showed that as wages rose, the demand for immigration decreased, reducing these countries' ability to export excess labor. This resulted in downward pressure upon local wages as an increasing share of working age individuals vied for limited economic opportunities in their communities of origin. The impact upon

remittance flows is mixed, as initially remittances rise with im/migrant incomes, but later these flows decline within the context of a changing and lower demand structure for immigrants. To mitigate the negative effects of U.S. immigration reform for the migrant-sending regions, it is critical to reform the process of remittances at the same time (Hinojosa-Ojeda et al. 2013). Our financial models suggest that financial intermediation (for example, financial products and services) of remittances would exert greater impacts across borders than immigration reform alone, and far more than trade and investment liberalization policies (Hinojosa-Ojeda 2012, 2010).

To begin systematically reversing the vicious cycle that currently exists as well as ameliorate the negative impacts that may result from changes in U.S. immigration policies, it is critical that immigration and remittance policies be viewed, analyzed, and implemented together with international development policies in the migrant-sending regions. This has not been the typical approach of the U.S., where instead domestic issues (like immigration, which has clear implications across borders) and development policy have remained largely independent of one another in their design and analysis. Policymakers have chosen to avoid the complexities of addressing the issues of integration, instead favoring approaches that are limited at best, and which often do not confront the root causes of the issues that they aim to address. In El Salvador, these limited policy approaches continue to ignore the deep relationships and interdependencies that existed between El Salvador and the U.S. prior to the war, and which have only increased in intensity as a result of U.S. involvement in the conflict, regional political and economic policies, and immigration and remittances beginning during the war and continuing to the present day.

The recent decade of development policy between El Salvador and the U.S. consists of the Millennium Challenge Corporation (MCC) Compacts, which are poverty reduction initiatives, and more recently, the Partnership for Growth (PFG), an Obama Administration initiative to promote economic growth in partner countries. El Salvador is one of the four countries picked for the PFG, along with Ghana, Tanzania, and the Philippines, and the same growth diagnostic methodology created by Hausmann, Rodrik, and Velasco (HRV) has been applied across all four contexts to measure barriers to economic growth (Hausmann, Rodrik, and Velasco 2005). However, except for the Philippines, none of the countries chosen present such an intense transnational relationship with the U.S. as El Salvador does. In fact, one of the most striking problems with both the MCC and PFG is that they ignore the most characteristic elements of the relation-

ship between the U.S. and El Salvador: migration and remittances (Seelke 2012). Despite the dominant role that migration and remittances have played in contributing to sustaining growth and improving the human development options in both countries, the policy prescriptions proposed by the MCC and PFG to promote economic growth and reduce poverty do not systematically address the elements of the current transnational vicious cycle, nor do they refer to any of the potential opportunities that migration, remittances, or other phenomena (such as technology) present for achieving development goals.

In response to the shortcomings of the PFG, the NAID Center initiated the creation of an alternative database capable of measuring and making more visible the influence of transnational dynamics upon the growth challenges faced in El Salvador as well as in Salvadoran migrant communities in the U.S. The objective is to contribute to the debate and to the design of other sets of policy prescriptions in both the U.S. and El Salvador, including but not limited to rational immigration reform and related development policies. This database and the process of transnational data collection and analysis methodologies aim to serve as complements to the PFG's economic analysis. By offering insight into the human development challenges and opportunities for acting across borders, the NAID Center hopes to contribute to the creation of more informed and coordinated policies that address the root causes of the vicious cycle and capitalize upon the opportunities for arriving at a virtuous cycle (UNDP El Salvador 2014).

## **A LONGER-TERM APPROACH TO TRANSFORMING THE VICIOUS CYCLE**

### **Opportunities for Transnational Remittances and Development**

At the UCLA NAID Center, we are using a longer-term approach to diagnose the nature of these problems, come up with real solutions, implement these solutions, and then test the implementation. To achieve this requires a wide range of mechanisms to help understand and diagnose the complex roots of the problem. For example, how do we diagnose the problem of why remittances remain primarily in a cash environment and generate a vicious rather than a virtuous cycle? Is it a problem of banks, regulations, or the inability of the MFIs and credit unions to break into this cycle? We've been analyzing the various components across the migration and remittance flows to determine the type of technology, regulatory, and/or marketing interventions that would be needed to correct this problem. We've also gone further in asking and analyzing what would be required to create a transnational ecosystem that could potentially give access to financial services in the North and the South. Such an ecosystem would allow

individuals, communities, and families to make choices and ensure that financial intermediation contributes to reversing the “Dutch Disease” vicious cycle, while creating a dynamic whereby remittances are moved out of a cash environment into a banking environment that has the ability to leverage financial flows and services for savings, investments, and productive activities (see Figure 3).

**Figure 3: Transnational Virtuous Cycle between El Salvador and the United States**



Source: Hinojosa-Ojeda and Takash 2011.

In exploring why financial exclusion persists and why the banking, mobile, and/or payments industries do not fix the problem themselves, we found that for these industries to move their business models from a financially exclusive focus on the top of the economic pyramid would be an extremely costly and labor intensive investment not easily remunerated. While they may be interested in the money to be earned in the bottom of the pyramid (BOP), they would rather someone else do the legwork to make this happen. Because of industry inertia, we had to develop a series of mobile and processing technologies and link them together, in order to provide banks the ability to offer their services to previously unbanked customers.

We also learned that to achieve the mission of transnational financial inclusion, it was critical to transform and integrate the financial processors segment of the global electronics payments industry. To do this, we had to design and implement a disruptive technological business plan intervention to “capture the commanding heights of the payments industry” and to create the “medicine” for the disease of financial exclusion, before we could test the impact of the medicine in randomized testing (Banerjee and Duflo 2011). Then we had to come up with rational cost structures that made it affordable and attractive for immigrants in the U.S. as well as for their unbanked family members in the country of origin. In this way, we were able to show that you can achieve cost reduction, increase acquisition of new customers, and get the technology into people’s hands.<sup>8</sup>

### **USING TECHNOLOGY FOR FINANCIAL EMPOWERMENT: KEY TO THE VIRTUOUS CYCLE**

El Salvador has more than a 110 percent rate of mobile penetration and nearly universal coverage throughout the country. At the same time, in the highly concentrated U.S. urban migrant communities almost everyone has a personal mobile phone and lives within coverage. Despite this widespread access to technology, 86 percent of the population in El Salvador does not have a bank account; and in Los Angeles, for example, studies have found that between 34 and 59 percent of immigrants do not have bank accounts (Demirguc-Kunt and Klapper 2012; Khashadourian and Tom 2007). Widespread access to mobile technology, combined with the advances in mobile banking technology over recent years, thus present a significant opportunity for providing all cell phone users with a virtual bank account. This opportunity led years ago to the creation of technology companies that could take advantage of the huge boom in mobile technology and translate research recommendations into concrete actions for financial empowerment and development from the BOP.

In this way, technology has enabled linking the transnational BOP using virtual accounts linked to prepaid debit and mobile technology in the U.S. to similar accounts in Mexico and El Salvador that are attached to savings in local financial institutions. Using this mechanism, im/migrants and their counterparts in the country of origin can access much lower cost remittances as well as a wide range of financial services. The critical issue then becomes how to make sure the savings generated flows into productive investments in the im/migrant-sending

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<sup>8</sup> We were able to reduce international transfer costs by 75% compared to Western Union (Hinojosa-Ojeda, 2008).

areas. This issue can potentially be addressed through the creation of financial instruments like “Diaspora Development Savings Bonds” for El Salvador, Mexico, and other migration and remittance-dependent countries, where this savings instrument would be made available to U.S. migrants or others as a safe way to save a part of their remittances or income at a fixed term and interest rate (Ketkar and Ratha 2010). This type of savings bond could be issued by local MFIs in migrant-sending communities and be backed by development institutions like USAID-DCA, the World Bank, and others, as well as by private investors; such bonds could be used to create risk pools that can reduce the cost of lending and generate a focus on productive activities in im/migrant-sending areas. Through the savings generated and financial partnerships, the MFIs are incentivized to support local development investments, generating both regional development and macro-economic impacts.

In cities such as Oakland, Richmond, and Los Angeles, California a local-local transnational approach is employed in which technology is being adopted for creating mobile-linked city ID debit cards, or resident IDs regardless of immigration status. These city ID debit cards will then be linked to municipalities in El Salvador that are also issuing and adopting municipal debit cards linked to mobile banking technology (Artz 2013; Saillant 2012). Providing this choice has had dramatic effects in the interest of people to adopt these mobile/debit mechanisms. Other research has independently predicted the same results, where if you provide immigrants with the ability to send a remittance to a savings account then the amount sent goes up; and more importantly, if you present people with a mechanism whereby they can send money and control access to that account from the U.S., the amount sent goes up even further (Ashraf et al. 2011). It has been demonstrated that technology and business solutions can be invented to get remittance flows into a local development banking system. Adoption of this platform in U.S. cities and home villages is currently being measured to see what types of impacts this intervention will have on local production and incomes as well as on financial inclusion and access to credit in im/migrant-sending regions.

Once this technology is widely available, it can be used for a varied range of applications beyond remittances and savings; it can become the conduit for anyone to access a wide range of financial services, such as micro-insurance, microcredit, and micro-payments, for example. In fact, the Salvadoran Social Security Institute (ISSS) is working with the NAID Center to enable the small scale purchase of health insurance by migrants for their family members in

El Salvador. While many countries and companies have tried to implement such a product, the major problem has been how to make these products easily available using a financial transfer mechanism that is readily accessible and

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**In post-conflict environments, especially where the North and South are increasingly linked through migration and remittances, the mobilization of just a fraction of the \$400 billion in global remittance flows towards development goals offers serious potential for creating major development impacts across borders.**

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that has reduced transaction costs. The transnational mobile and debit linked electronic payments platform that is central to our intervention allows for this to finally happen.

The Salvadoran government is also pursuing another application of this technology through the potential implementation of the mobile debit electronic payments platform for distributing subsidy payments.<sup>9</sup> El Salvador like most developing countries around the world subsidizes many things, and one of the most expensive is liquid gas for cooking. Currently, the government is subsidizing the market price of all liquid propane gas purchases at a cost of hundreds of millions of dollars, which the IMF has said is fiscally unsustainable. Using mobile banking technology, the government can give a “subsidy account” to every single household in the country. This will significantly reduce logistical expenses for the government and the subsidy recipients, and it will localize the use of the subsidy, as the funds on the “subsidy account” can only be used to buy gas at stores affiliated as gas distributors. At the same time, the government will contribute to increasing the electronic payments capacity of El Salvador by eight times by adding nearly 40,000 gas distributors to the existing network of 5,000 stores with a Point of Sale (POS), and by turning cell phones into electronic points of payment. The projected impact is a reduction of the fiscal deficit of the country by 20 percent by conducting just this one subsidy on the platform. For individual households, there is also significant value added; by using the same debit card mobile platform, these households will also be able to receive and send low-cost remittances, and in the future access a range of microfinance services that may contribute to further reducing household vulnerabilities.

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<sup>9</sup> This is a trend that is gaining ground around the world to transform government subsidies and other forms of cash transfers into tools for promoting savings, in addition to resolving problems of focalizing the use of subsidies (Zimmerman, Ravi, and Tosh 2012; Jackelen and Zimmerman 2011).

This is a breakthrough moment: after decades of work, finally mobile internet technology has reached a critical point that has made this transnational coordinated intervention possible. There are now significant opportunities for its scalability in multiple countries around the world and to ensure its financial viability both for the technology providing company (since it must generate a rate of return) and more importantly for the governments that are provided access to this technology at no cost. And all the while this is being achieved through the ability to provide financial services at lower costs, but in such a way that makes this infrastructure easily available via cell phones and thus capable of reaching massive scale.

### **A VIRTUOUS CYCLE MOVING FORWARD: RECOGNIZING A NEW ERA IN HUMAN DEVELOPMENT OPPORTUNITIES**

In post-conflict environments, especially where the North and South are increasingly linked through migration and remittances, the mobilization of just a fraction of the \$400 billion in global remittance flows towards development goals offers serious potential for creating major development impacts across borders. This is particularly true in the case of El Salvador, where getting 10 percent of remittance flows into saving instruments and leveraging investable funds with microfinance institutions (MFIs) in the migrant-sending areas is a goal that is realistic and achievable thanks to the opportunities made possible by technology; achieving this goal would have a much more significant impact than current U.S.-El Salvador development cooperation initiatives.<sup>10</sup>

In the post-post-conflict context, this case serves as an example of how new government-diaspora cooperation has the potential to emerge from conflicts. In El Salvador, the construction of a viable financial and technological future has the potential to leverage the migration and remittance dynamic that was the result of significant conflict and suffering; ironically, the same dynamic can now contribute to transforming the vicious cycle of exclusion and inequality into a virtuous cycle of inclusion and development with great benefits for both the sending and receiving countries. In doing this, it will be especially important to study and identify opportunities for post-post-conflict transnational coordinated development policies, particularly in light of the increasing influence of the Salvadoran Diaspora in El Salvador and the growing role of Latinos in the U.S., and Salvadorans as a significant part of this population.

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<sup>10</sup> Such investable funds would represent five times more per year than what the Millennium Challenge Corporation and Partnership for Growth are planning to provide over five years.



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## 7. Remittances and Community Resilience to Conflict and Environmental Hazards in Northwestern Pakistan

Giovanna Gioli, Talimand Khan, and Jürgen Scheffran

### MIGRATION AND REMITTANCES IN PAKISTAN

Pakistan has the world's seventh largest diaspora and ranked seventh for remittances inflow in 2012 (World Bank 2012) after India, China, Philippines, Mexico, Nigeria, and Egypt. Economic projections suggest that the annual inflow of remittances could exceed US\$ 13 billion by the end of Fiscal Year 2012 (State Bank of Pakistan 2012), featuring a ten-fold increase since 2001 (Amjad et al. 2012). According to the estimates of the Bureau of Emigration, about four million Pakistani migrant workers live in different countries around the globe (2.5 percent of the total population). Out of this diaspora, about half of labor migrants work in the six countries of the Gulf Cooperation Council (GCC)<sup>1</sup> (Government of Pakistan 2013), primarily in Saudi Arabia and in the United Arab Emirates (UAE). Sources of labor migration are distributed unevenly across the country: since the first oil crises in 1971, rural regions of low agricultural productivity, such as the rain-fed areas of Khyber Pakhtunkhwa (KP), are the main suppliers of unskilled and semi-skilled migrant workers to the Gulf (Addleton 1984; Gazdar 2003; Nichols 2008).

KP is the area most dependent on foreign remittances within the country: foreign remittances account for 9.4 percent of the average monthly household income, compared to 5.1 percent for Punjab, 1.5 percent for Baluchistan, and 0.7 percent for Sindh (World Bank 2011). KP is also the biggest recipient of remittances from abroad as well as from within the country among all the four provinces of Pakistan, with nearly 31 percent of all households receiving remittances in 2007–08. The proportion of remittance-receiving households was even higher (36 percent) for the rural sector of the province (Khan and Khalid 2011).

Migration is not a recent trend in KP. The people of this region have always been extremely mobile. In pre-partition time, there was common migration to major cities in India (e.g., to Ahmedabad), seeking employment as watchmen, farmers, workers in dockyards and on ships (Nichols 2008). To a lesser extent, migrants from that location also acted as traders and moneylenders. Yet, it is only since

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1 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

the 1970s that migration to the Gulf has become one of the most widespread livelihood strategies in the area, cushioning against economic shocks that result from the uncertain and risk-prone agro-pastoral economy. KP is still one of the most food-insecure provinces, featuring 26 percent of the food-insecure districts of the country—second only to Baluchistan (28 percent) (WFP 2004). Recurrent famines were common until a few decades ago, especially in the months between *Kharib* and *Rabi* (April–May) when food stocks were depleted and it was still too early to harvest.

Migration to the Gulf is a steady and growing phenomenon that has significantly improved the food security and overall living standards of migrant-sending households in KP. Migration is deeply embedded in the socioeconomic structures of the local communities and also plays a role in social hierarchy, bringing heightened status to migrant-sending households. Fathers migrate and sons follow suit after reaching adulthood. The suffering and the sacrifices of migration to the Gulf are vividly portrayed in rich Pakhtun oral heritage, conveyed through music and poetry.

This section explores the role of remittances among the communities of the Swat and Lower Dir districts of KP. The goals here include:

- Building knowledge about the use of remittances by local communities to cope with situations of conflict and deal with the aftermath of environmental hazards;
- Collecting information on the impact of remittances on community resilience to conflict and climate change;
- Linking migration and development in the framework of post-conflict and post-disaster relief and reconstruction.

## **METHODOLOGY**

The present study is based on a combination of qualitative and quantitative research carried out in October 2012 in conflict-affected villages with high numbers of households involved in labor migration out of the native district, to locations both within and outside the country. The Union Councils were identified through consultative meetings with local NGOs and civil society representatives who had knowledge and experience in the area. We purposely sampled only remittance-receiving households as they were the only households relevant to this research. For that reason, we did not aim for a balanced representation of geographical units.

For quantitative data collection, a structured questionnaire was administered to 602 households in four Union Councils (UC), two in each selected district (Swat and Lower Dir). The sample was stratified by gender to give representation to women (out of 602 households structured questionnaires, male and female representation is 69 and 31 percent, respectively). In addition, we also conducted two Focus Group Discussions (FGDs), one in each district, with male migrants from the community.

### **REMITTANCE CASE STUDY: THE SWAT AND LOWER DIR DISTRICTS OF KHYBER PAKHTUNKHWA**

Swat and Lower Dir districts feature some of the highest numbers of workers registered for overseas employment in 2012 (17,995 and 19,196, respectively—GoP 2013). Both districts are situated in the Hindu-Kush mountain range and face heavy environmental pressures, including the adverse impacts of the climate change. Weather conditions are harsh, with extensive snowfall in winter and drought in summer. Excessive precipitation causes damage to the traditional mud-built *kacha* houses, and also causes landslides (Steimann 2005; Siegmann 2010). The misuse of natural resources that has intensified since the merging of the Swat princely state with Pakistan in the 1970s has led to significant deforestation (Khan 2007). These climate-induced risks are further aggravated by neglected road infrastructure in the area. The flood of 2010 that killed more than 2,000 people, washed away thousands of homes, and destroyed several roads and bridges further devastated the region.

KP has also witnessed a dramatic escalation in incidents of terrorism over the last decade. “Talibanization” of the area peaked in 2007, leading to frequent bombings of schools, places of worship and hospitals, target-killings and kidnapping, and other types of widespread violence (UNDP 2012). The Malakand division, and particularly the Swat district together with FATA (Federally Administered Tribal Area) were most affected by the insurgency, resulting in a severe conflict costing thousands of lives. The warfare led to mass displacement of the population in various parts of the province. The authority of the state was eventually reestablished through a full-scale military operation in 2009. Yet, insurgent attacks are still widespread in both districts and the situation remains precarious.

In our sample, 22 percent of the surveyed households were affected by the 2010 flood and 90 percent by the conflict, while nine percent were not affected by either.



## KEY FINDINGS

According to our survey, the great majority of migrants were employed in the Gulf (92 percent), with Saudi Arabia being the top destination. There are several reasons for this, including the fact that Saudi Arabia has a long history of cooperation with Pakistan. Obtaining a visa to the Gulf is easier and less expensive than to Western countries.

Because of prevailing patriarchal norms, such as the system of *Purdah* that prescribes segregation between sexes, labor migrants are almost exclusively male. This was reflected in our sample where all migrant workers were male and overwhelmingly migrating alone, without the family (95 percent).

The custom of migrating to the Gulf is widespread in the area to the degree that neither conflict nor environmental hazards (such as the 2010 flood) were considered having played a direct role in the decision to migrate. A large number of the respondents (94 percent) have identified "Poverty/Lack of economic opportunities *in situ*" as the only determinant for migration. Migrant educational status was found to range mostly between illiterate (22 percent) and 10th grade (59 percent). Regarding the type of employment, almost half of the migrants (43 percent) were engaged in unskilled labor, 25 percent in semi-skilled labor, 25 percent were skilled laborers, while four percent and three percent were agricultural laborers and professionals, respectively.

Social ties proved crucial in facilitating the migratory process as 59 percent of the respondents were able to reach the destination country thanks to help with visa provisioning from a relative residing in that country. Thirty-seven percent of the respondents resorted to a recruiter, while the remaining either crossed the borders illegally or were sponsored by relatives or friends.

*Hundi/Hawala*<sup>2</sup> is the most common way of sending remittances back home (59 percent), followed by bank transfers (26 percent), and transfers by compatriots working in the destination (eight percent). Telebanking (*easy paisa*) is available only for internal migrants. Five percent of the respondents were found to be unable to remit as they were still repaying the costs of migration.

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2 For a detailed description and discussion of the *Hawala* system, see Section I of this volume, "'Informal' Remittance Systems and Post-Conflict Development." *Hawala* plays an extremely salient role in Pakistan as it presents many advantages as compared to formal value transfer systems, including swiftness, easy accessibility, freedom from bureaucratic procedures, as well as cost-effectiveness. Higher trust is also a factor as *hawala* is often accessed via family or social networks and is embedded within the Islamic tradition (Ballard 2003). On the other hand, the anonymity and efficiency of *hawala* may facilitate the channeling of money for illegal operations, including smuggling, money laundering, tax evasion, and terrorism (Fagen and Bump 2006).

Remittances are perceived as playing a major role in improving the living standards of migrant-sending households. The first investment that causes an immediate change in the perceived lifestyle is the construction of a new house. This means switching from the traditional *Kacha* structure (walls made from a mixture of mud or clay and straw) to *Pakka* houses (with brick or concrete walls). As construction materials can be expensive, *Pakka* houses confer higher social status to the household.

Better housing also improves health conditions of the family as well as builds resilience to natural hazards. Thanks to migration, many households are also able to buy modern

appliances for their homes, either obtained from abroad or purchased locally. Obtaining such appliances is associated with increased well-being and exposure to the outside world.

Better education for children is another major change resulting from migration. Education is now a priority for the parents, as an educated person is able to gain a good job abroad. Education is considered particularly important for male children as they are viewed as more capable migrant workers. However, migration has helped improve education of girls too, partially because of local resistance to the Taliban's opposition to female education.

The possibility of investing more money in social spending is also perceived as a major asset for remittances-receiving households. This has to be understood in the context of the Pakhtun society, where the principle of hospitality (*melmastia*) is more than just a matter of politeness, but rather a duty to be fulfilled at any cost. One's respectability and social status are frequently determined by adherence to this custom (Lindholm 1996).

Only seven percent of the surveyed households reported that remittances had not effected significant changes in the lifestyle of the family. However, this may correspond to the fraction of migrant households that are not remitting as they are still paying back the costs of migration. The top usages of remittances were found to include investing in real estate and construction (35 percent), business (28 percent), social ceremonies (17 percent), pilgrimage (nine percent), and transport (seven percent).

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## REMITTANCES DURING AND AFTER THE CONFLICT

As a result of the conflict, more than two million people fled the Swat Valley, Lower Dir, Buner, and Shangla districts. People were forced to leave their homes, fields, and livestock in fear of the militants who burnt the ripened crops, destroyed orchards, slaughtered the livestock, and damaged fish ponds as well as irrigation canals in almost all areas of Swat district. Some 80 percent of the refugees took shelter with local host families or rented accommodation mostly with money remitted by migrant relatives (Jahangir 2009). As stated by the chairperson of the Human Rights Commission of Pakistan (HRCP), Asma Jahangir: “Had the citizens not acted in a prompt and generous way, protection for the IDPs<sup>3</sup> would have become virtually impossible.” The reasons for this may be attributed to the above-mentioned principle of *melmastia* as well as tribal loyalties that may have compelled people in different districts to grant hospitality to conflict refugees belonging to the same tribe. Mobilization from the locally strong Awami National Party (ANP) played a role too.

Remitted money had a central importance during the active conflict as it remained the most important and sometimes the only supply line to ensure the survival of household. Those who had remained, either due to prolonged and continued curfews or to harvest the field and the orchards, were facing starvation that could be avoided only thanks to remittances. In our sample, 74 percent of the respondents reported to having avoided starvation during the conflict thanks to remittances, and nine percent were able to evacuate the family and rent houses in other cities such as Peshawar Abbottabad, Mardan, Rawalpindi, and Islamabad where their children were able to continue their education.

In the aftermath of the conflict, remittances constituted a bulwark in the reconstruction of livelihoods for 23 percent of the people surveyed. Most of the respondents reported to have used remittances to rebuild their houses. This correlates with recent studies on the Swat crisis, where 59 percent of the reconstruction costs were found to have been borne by the house-owner himself (UNDP 2012). The majority of financing for such houses came from remittances sent by relatives working abroad. Approximately 30 to 40 percent of the people of the surveyed areas were working abroad and the money sent by these workers during the insurgency ensured the survival of their relatives back home (UNDP 2012). The other major supporter of the housing reconstruction was the Government of Khyber Pakhtunkhwa, which provided funds to 17 percent of

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3 Internally displaced persons.

the affected population. International donor agencies also took part in supporting housing reconstruction in the area (accounting for 17 percent in the total reconstructed houses). Relatives of the affected households living in non-affected parts of KP province and other provinces also extended their support in housing reconstruction; the share of such families was 10 percent (UNDP 2012).

The impacts of remittances are not limited to the recipient households. Remittances are often crucial in the recovery and stabilization of the local economy and rehabilitation of public services in the post-conflict period (Lindley 2009). Interviewees in both Swat and Lower Dir districts reported that remittances had been the main reason for a speedy recovery in the region. Immediately after the conflict, businesses swiftly reopened, and housing and infrastructure reconstruction was carried out mostly thanks to the efforts of private citizens. Some migrants returned immediately after the conflict with a goal of starting a business and helping the reconstruction.

## **REMITTANCES DURING AND AFTER THE 2010 FLOOD**

Swat, and to a lesser extent, Lower Dir districts have been also severely impacted by the 2010 flood. While people were still struggling to rehabilitate their livelihoods after the consequences of the conflict, the August 2010 devastating floods exacerbated the situation by destroying crops, eroding agricultural land, and killing livestock. Approximately 100,000 acres of soil along the Swat River was washed out. According to the ACTED (Agency for Technical Cooperation and Development) rapid need assessment conducted in 173 villages of Swat district, 286 people lost their lives and 9,450 houses were completely swept away, along with many roads and bridges in the area (Shah 2010).

In line with recent literature on remittances and natural hazards in Pakistan (Suleri and Savage 2006), households that contained migrants were able to absorb the economic shock much better than non-migrant households as the former did not depend entirely on income from agriculture and livestock. Seventy percent reported to have been able to avoid starvation thanks to remittances. They were also able to rebuild their livelihoods quicker and restore household assets destroyed by the flood (20 percent). Such households were able to improve or reconstruct their houses, thus building resilience to future environmental shocks (10 percent). Only two percent of the respondents reported the evacuation of the family in the aftermath of the flood.

## CONCLUSIONS

Remittances in the surveyed communities of KP proved crucial in coping with the aftermath of both conflict and environmental hazards. Survival during these events as well as reconstruction of household assets in the aftermath became possible largely due to the contributions from the migrant community. Yet, apart from family ties, such reconstruction was carried out mainly at the individual household level, with scant involvement from the community. No significant organized channels to collect and transfer money collectively from migrant destination countries were detected.

The well-established and decades-old diaspora from KP in the Gulf is mostly organized on the basis of regional committees whose scope of intervention is limited to extreme emergencies (such as collecting money to ship home the dead body of a compatriot). The committees are also involved in advising on serious legal issues that Pakistani migrants may face in the Gulf, where migrant rights are virtually nonexistent and migrants are abused on a regular basis. The major Pakistani political parties have representative bodies in the Gulf, but their activity is limited to raising money for the party. Religious channels are preferred when migrant workers intend to donate money for charity. Thirty-two percent of migrant-sending households were found to not contribute to their community, 31 percent would donate to local mosques and madrassa, while 34 percent would invest individually in charity and poverty relief.

A pressing question to be addressed is how the international aid community and Pakistani government are able to enhance the involvement of Pakistani migrant communities in the Gulf for post-conflict and post-disaster relief and reconstruction (World Bank 2010). Further research on labor migration and remittances in Northwestern Pakistan is needed. For successful co-development initiatives, more efficient and transparent means to channel and invest remittances have to be identified in order to strengthen the local economy, build local capacity, and improve community resilience.

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## 8. Filling the Gap in Health Staffing in Post-Conflict States: A Modest but Innovative Proposal

Frank Feeley, Susan Foster, Kara Galer, and Martin McKee

High rates of “brain drain” from many developing countries are one reason for a shortfall in the supply of health professionals in these countries. Emigration of health professionals can be particularly severe in countries that have experienced a humanitarian crisis. Severe shortages of health professionals in fragile states, especially those emerging from conflict, will not be relieved in the short run by expanding the numbers in training.

Our hypothesis is that:

- a) there is a substantial number of medical and nursing graduates working in high-income countries who have considered returning to their home countries;
- b) have been discouraged from doing so because of concern about loss of future pension entitlement; and
- c) may be encouraged to return by using development funds to continue contributions to their current public pension plans.

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**Continuing to pay pension contributions using development funding might be one way to encourage the return of experienced health professionals to post-conflict states—a “remittance” of skills necessary to rebuild the health system.**

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For countries that have experienced conflict or humanitarian crisis, the emigrant’s ties to the health system in the country of refuge may be weaker, making the “pension incentive” potentially more effective in leveraging the return of desperately needed health professionals.

Continuing to pay pension contributions using development funding might be one way to encourage the return of experienced health professionals to post-conflict states—a “remittance” of skills necessary to rebuild the health system.

### A CRITICAL SHORTAGE WHERE HEALTH CARE IS CRITICAL

The need for more medical workers in many low-income countries is clear. The World Health Organization (WHO) and others have documented the increasing scale of the shortage (Kinfu et al. 2009; Stilwell et al. 2004); in Sub-Saharan Africa alone one estimate suggests 240,000 more doctors and 551,000 more nurses would be needed by 2015 to achieve the Millennium Development Goals



(Scheffler et al. 2009). While less severe overall, similar challenges confront many countries in Asia (Rao et al. 2011). However, some of the greatest problems are seen in countries emerging from conflict, where health facilities may have been destroyed and health workers and their families face grave personal danger (Donaldson et al. 2012; Doocy et al. 2010). Often, conflict driven immigration follows patterns already set by previous immigrants who left for economic reasons (Fagen and Bump 2006).

For example, in the UK in 2000, 1.7 percent (2,698) of physicians came from four countries with a history of repression and civil strife—Sudan, Myanmar, Libya, and Sri Lanka (Mullan 2005). Clemens and Petterson (2007) report that there were more Liberian-born doctors in the U.S. in 2000 than in Liberia, and in that year 81 percent of Liberian-born nurses were living in nine migrant-receiving countries. This pattern held for other African countries torn by civil strife in the 1990s. More than 40 percent of physicians born in Angola, Congo Brazzaville, Guinea Bissau, Liberia, Mozambique, Rwanda, and Sierra Leone were practicing in one of nine developed countries<sup>1</sup> in 2000.

In rebuilding a country after the end of war, civil disorder, or humanitarian crisis, the reconstruction of health systems should be a priority. Nurses, doctors, pharmacists, and others with clinical training must be recruited or enticed to return to staff the rebuilt health system. This is particularly true as humanitarian NGOs withdraw from the stabilized country. Expatriate doctors that staffed health care facilities during the emergency will likely return home or move on to a fresh crisis as the NGOs withdraw. How, then, can donors raise the professional staffing levels in the health system they are helping to rebuild?

One way is to train more health workers. This will almost certainly be necessary anyway, given that most countries experiencing conflict will have had inadequate numbers to begin with (Kinfu et al. 2009). But medical and nursing schools are expensive and difficult to establish. Both teaching faculties and teaching facilities may have been destroyed during the emergency. Even if training places become available, it is not clear that there will be enough qualified high school graduates to take these seats, particularly if secondary education was also disrupted during the crisis. Even with a flow of new students into training programs, it will be five to 10 years before the expanded flow of trained graduates reaches the health care system.

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1 United States, UK, France, Canada, Australia, Portugal, Spain, Belgium, South Africa.

The alternative is for donors to seek to motivate the return of the health workers who left during the emergency or before. There are several arguments for seeking to do so. First, and most obviously, returning health professionals who fled in mid-life have valuable years of clinical experience in their home country, and those who left a bit earlier in life may have additional training and experience in the country to which they relocated, but both groups will know their home language and local culture. However, they bring much more. Research on social remittances has shown how those from developing countries who return to their countries of origin following temporary migration can bring new visions of what is possible. Levitt and Lamba-Nieves (2011) described how those who returned to the Dominican Republic from the U.S. had a different “outlook” on life, characterized by greater ambition, new ideas, and a commitment to community engagement. Individuals displaced by conflict may be especially willing to return. They may have remaining family members with whom they have strong bonds (the migration of a family member from a conflict setting has been described as an insurance policy) while they may also have assets in their country of origin, being protected by their remaining family, that they wish to return to (Lindley 2009).

Second, professionals who flee a crisis are less likely than more conventional economic migrants, who have time to plan their move, to enter the country of refuge through its graduate training system, less likely to be fluent in the language of the receiving country, and so are less likely to be licensed and practicing their profession. Migrants who stay in health care tend to be concentrated in less attractive specialties and in low-level posts, often well below their level of ability. Refugees who fail to obtain licensure in the country of refuge may be surviving in low-skilled and menial jobs. Finlay, Crutcher, and Drummond (2011) examined a group of 15 refugees from South Sudan, trained as physicians in Cuba and residing in Canada, where they had not obtained medical licensure. These refugees showed a general desire to return to their homeland and practice medicine, but were reluctant to return for two main reasons. Most wanted assurance of Canadian citizenship so that they could return to Canada if conditions worsened in South Sudan.<sup>2</sup> But for many, the reluctance to return was also driven by a need to earn money (which they were doing in Canada) to share with families in refugee camps or villages back home. These refugees were relatively

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<sup>2</sup> Most had accumulated nearly enough time in Canada to qualify for citizenship, and return was delayed for some in order to meet the requirement.

young; most fled the war as children and were sent for a medical education by the government in exile of John Garang.

## **A MODEST, INNOVATIVE PROPOSAL**

We propose one measure that may help to overcome some of these barriers to encourage the return of locally trained health workers from the more fortunate nations where many of them now reside. Some refugee clinicians might be encouraged to return to their natal country if the return does not create a serious economic burden for them in the long term. This would involve tackling the golden chain that ties him or her to the developed country's health system. The professional and his employer contribute significant amounts into pension funds, either private or governmental. These pension systems will not begin paying a benefit until the member reaches a defined retirement age, which is currently 66 in both the U.S. and the UK. Depending on employment history and pension fund rules, the amount of the retirement benefit generally continues to grow with each annual contribution. We trace the impact of two hypothetical examples; a nurse from Sierra Leone and a doctor from Liberia. Even if she finds an attractive job back home and no longer has family ties binding her to the developed country, the nurse from Sierra Leone working in the UK or the Liberian doctor in the U.S. will be reluctant to reduce her pension income by leaving developed country employment prematurely. The economics literature confirms that employees in such "defined benefit" pension plans are less likely to change jobs, particularly as they near retirement age (Hurd 1996; Gale et al. 2004).

What if the developed country government continued contributions to the pension plan for health professionals returning to strengthen the health systems of their home country? The expense would not be great. In the U.S., the cost in 2013 would be \$14,099 per year<sup>3</sup> if development funds covered both the employer and employee contribution to Social Security for the Liberian doctor. In the UK in 2013, it would cost about £5,355 (US\$8,140) per year to maintain the contribution funds to the National Health Service pension scheme for the nurse returning to Sierra Leone.

The total cost for continued contributions to pension plans as an incentive for refugee health professionals to return would be modest. To cover the pension fund contributions of 100 Liberian doctors practicing in the U.S. costs \$1.41 million per year. But the return of even one-third of the 107 Liberian-born physi-

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<sup>3</sup> Assumes the doctor is earning more than the Social Security maximum salary base of \$113,700. <http://tinyurl.com/SSA-taxrates>.

cians in the U.S. in 2000 (Clemens and Petterson 2007) would increase by 50 percent the number of Liberian physicians who remained at home, and would cost less than \$500,000 per year. The potential exists for minimal financial input to yield substantial gains in the professional staffing of the health system in a post-conflict state.

There are, inevitably, some challenges. Mechanisms would be needed to verify that the beneficiary of the continuing pension contributions is practicing in the disadvantaged country. Orga-

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**Yet if successful, this innovation could encourage a reverse of the “brain drain” and add to the supply of health professionals more quickly—and more cheaply—than new local medical or nursing schools, which may still see their graduates disappear overseas.**

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nizations must be identified to take on this verification task. Yet if successful, this innovation could encourage a reverse of the “brain drain” and add to the supply of health professionals more quickly—and more cheaply—than new local medical or nursing schools, which may still see their graduates disappear overseas. These pension fund contributions would be fitting reparations for countries that have staffed their health system with imported professionals without incurring the cost of their academic training. For countries recovering from humanitarian crisis, the “pension incentive” would be a low-cost way to encourage the reverse migration of professionals with the requisite clinical and cultural skills to rebuild a shattered health system.

A first step would be to survey expatriate health professionals from some post-conflict countries on the factors that bind them to the country of refuge, and those that would encourage them to return home. Response to the pension continuation proposal could be explicitly tested in such a poll. If the results are encouraging, the proposal could then be field tested in a country like Sierra Leone, with a development agency such as the UK Department for International Development continuing the National Health Service (NHS) pension contributions for returning health professionals, and advertising this opportunity through the NHS and expatriate networks. In a relatively small country like Sierra Leone, with active foreign assistance programs, it should be possible to confirm that the refugees receiving pension support do return and practice their profession. The experiment could be evaluated by monitoring professional registrations in both countries. If it accelerates the return of health professionals, the scheme could be rolled out more broadly to post-conflict countries and other victims of the “brain drain” struggling to augment the health care workforce.

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## Section IV: Task Force Findings, Policy Recommendations, and Suggested Areas for Further Research

The papers in this volume investigated a wide range of issues central to conflict-induced remittance systems and the possibilities of leveraging remittance funds for post-conflict development. Remittance flows in post-conflict contexts have been very sparsely researched so far, and there is an urgent need for scholars as well as policymakers to give more attention to this increasingly important topic. In the current environment of accelerating transnational human and capital flows and the recurrent and fragmentary nature of conflicts, the study of the dynamics of the remittance transfers and their role in combating poverty is increasingly relevant to all aspects of human security and peace-building.

The Task Force papers established that remittances are vitally important for sustaining local livelihoods as well as rehabilitating institutional infrastructures and improving financial inclusion in post-conflict contexts. Drawing upon existing networks of social support and interacting with a variety of local institutions, remittance flows enable multi-scale connections between diverse organizations and networks and foster local innovation, entrepreneurship, and empowerment.

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**Because of their interconnectedness with diverse social and economic realms of conflict-affected communities, remittances hold vast potential to enhance post-conflict human security.**

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Highlighting the increasing complexity of global remittance systems, the Report examined opportunities for greater formalization of remittance transfer channels and possibilities for enhanced collaboration with diverse institutions of varying degrees of formality. The papers also established the increasing role of diaspora networks and migrant associations in post-conflict co-development initiatives. Because of their interconnectedness with diverse social and economic realms of conflict-affected communities, remittances hold vast potential to enhance post-conflict human security. However, the improved integration of remittance flows into post-conflict development efforts still poses considerable challenges. The main areas of these challenges as well as suggestions for further research and policy applications are outlined below.

## 1. REMITTANCES, FINANCIAL INCLUSION, AND MULTI-SCALE INSTITUTIONAL PARTNERSHIPS

- Most conflict-induced remittances are transferred through informal channels that are embedded in existing social institutions and networks of reciprocity. Although the formal banking infrastructure is often lacking in conflict-affected situations, modern informal remittance transfers can involve complex connections to diverse formal sector institutions. These reciprocal connections and potential for adaptive linkages should be further researched and drawn upon in leveraging remittances for post-conflict development. The motivations and needs of people to participate in financial institutions of different degrees of formality should receive more attention.
- Conflict-induced remittance systems can be highly entrepreneurial in character, encouraging local adaptations that foster linkages between financial institutions of different levels and degrees of formality. In the contexts of post-conflict devastation, opportunities for collaboration among existing remittance institutions and diverse local infrastructures should be further explored.
- Partnerships should be explored with a wide range of institutions of financial inclusion, including post offices, mobile banking platforms, microfinance institutions, credit unions and cooperative marketing associations, as well as local rotating savings associations, women's economic groups, farmers' associations and natural resource user groups, and umbrella organizations for local producers and entrepreneurs. In African contexts, local semi-formal savings and credit cooperative organizations (SACCOs) could be potential partners for remittance systems. A broader view of remittance institutions that bridges the formal and informal divide and enables productive partnerships should be encouraged.
- Extending remittance services to allow more households in remote and rural locations greater access to these funds is a development imperative. Providing improved access and diversifying the institutional set-up for money transfer services could lower transfer costs and disseminate the benefits of remittances more widely. Use of microfinance networks and mobile technology may help the rural poor benefit from money transfer services in novel and productive ways.
- As the institutional challenge to local post-conflict development often lies in facilitating the building of social capital to enhance the bridging capacities of

local institutions, attention must be given to existing local networks of mutual-ity and practices of livelihood. Informal businesses and local savings-credit networks have frequently emerged as major coping mechanisms in conflict-affected communities, and therefore providing support to them can be paramount. Remittance transfers associated with these institutions can provide unique points of leverage for expanding financial inclusion in conflict-affected environments.

- Remittance institutions have the potential to contribute towards broader, transformational goals of financial inclusion through a focus on the interconnected aspects of human empowerment and agency. The act of sending or receiving remittances can also act as a gateway into formal financial systems, thereby providing access to formal financial services for larger numbers of the “unbanked.” More research is needed on how sending or receiving remittances can provide more people access to financial institutions of various degrees of formality, in accordance with their needs and existing infrastructural possibilities.

## **2. DIASPORA NETWORKS, CO-DEVELOPMENT, AND COLLECTIVE REMITTANCES**

- Fostering co-development projects among the diaspora is an important element of post-conflict reconstruction. Collective remittances should be more intensively drawn upon to invest in various infrastructural and rural development programs in direct partnerships with recipient communities. Unmediated collaboration should be encouraged between post-conflict states and the diaspora to more efficiently channel remittances into development activities.
- Attention must be given to the increasingly diverse networks and organizations of the diaspora that enable migrants to participate in co-development projects (including organizations such as hometown associations, ethnic, religious and professional associations, nongovernmental associations, diaspora investment and development groups, etc.). Although such organizations are increasingly prevalent, knowledge about their specific activities and the impact of collective remittances to the development of migrants’ home countries is scarce, and additional research is needed.
- Novel types of government-diaspora collaboration should be encouraged, with a focus on diverse transnational partnerships on the levels of organizations,



networks, and communities. The role of new technologies such as mobile remittance platforms in developing these partnerships should be explored.

- A better understanding is needed of the overlapping and complex links among various immigration issues and regulations, and post-conflict remittance flows and their role in national development. Regulatory frameworks should focus on facilitating the ties between diasporas' home countries that allow for more efficient flows of economic as well as social remittances in the form of skills, technology, and values. In many contexts, legalization of multiple citizenships and other similar measures that allow the transnational community to maintain ties to both home and host countries would constitute a significant step towards longer-term investment in post-conflict rehabilitation.
- High rates of brain drain from many post-conflict countries are an important reason for a shortfall in the supply of professionals in these countries. Severe shortages of health professionals in conflict-affected states, for example, will not be relieved in the short run by expanding training. To reverse the "brain drain" in a post-conflict country, there is a need to study the processes and rationales of immigrant professionals' decisions to return home. This should include a focus on reforming pension and development assistance programs in the nations of destination and origin in a way that will encourage the diaspora to return.
- More research is needed into remittance patterns of people in forced migration contexts, including motivations for remitting, remittance flows and channels, in-kind versus monetary remittances, and implications of the remittances to reoccurrence of violent conflict. Better information is needed about family and gender dynamics involved in sending and receiving remittances, about senders' motivations to remit, and the uses of remittances by receiving parties. In-depth ethnographic research involving participatory observation, daily financial diaries, and other similar methodologies is recommended.

### **3. LEGISLATIVE AND REGULATORY ISSUES**

- Contemporary remittance systems are part of increasingly complex global financial networks. Because of their high degrees of fragmentation and anonymity, informal remittance transfers that predominate in post-conflict regions may in some cases be vulnerable to criminal abuse. Regulatory efforts should consider contextually differentiated and culturally sensitive approaches to existing remittance systems in post-conflict areas. Thus, regulatory efforts

should include multi-sided collaboration with local remittance agents, customers, and diaspora representatives.

- Flexible and locally adaptable solutions should be sought when regulating transnational remittance flows. Regulations like the Dodd-Frank Act amendments to the Electronic Funds Transfer Act that was intended to offer protection to U.S. residents sending funds to foreign countries may be difficult to apply in post-conflict contexts where the financial regulatory structure is weak and legislative and institutional infrastructure unstable. It is suggested that the Consumer Financial Protection Bureau (CFPB) use its authority to adjust the requirements of certain disclosures about remittance transfers that may render these transfers problematic in post-conflict contexts.
- More research and analysis is needed regarding international legislative frameworks that impede migration and remittance flows. Harmonization of the regulatory environment would enhance collaboration within a wide range of stakeholders, including local, national, and transnational actors.

#### **4. BUILDING LOCAL RESILIENCE—REMITTANCES AND HUMAN SECURITY**

- The increasing connectedness of diverse aspects of human vulnerability that may disrupt peace and development needs more attention. The human security approach highlights the role of remittances in building local resilience through reliance on a broad range of local institutions with a focus on individual and community empowerment and participation.
- As part of the broader framework of financial inclusion, remittances in post-conflict countries should not be approached as a separate issue from those such as environment, health, education, and gender. Both social and economic empowerment goals should be considered in leveraging remittances for post-conflict development.
- The assessment of the impact of remittances to community resilience needs to view human conflict in combination with various environmental factors. Local adaptation to environmental hazards and climate change cannot be separated from adaptation to disruptive socio-economic and political circumstances, including violent conflict. More research is needed into remittances as an adaptive mechanism to multiple, simultaneously occurring environmental and social crises.

- In the present era of heightened local and transnational mobility and recurrent cycles of conflict, attention must be given to broader institutional frameworks for the management of diverse shocks and disruptions. Such frameworks should include new spaces of collaboration between diverse state and non-state actors.

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